

**CITY OF ECORSE, MICHIGAN**

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**COMPREHENSIVE ANNUAL  
FINANCIAL REPORT**

**YEAR ENDED JUNE 30, 2006**

## Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input checked="" type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name CITY OF ECORSE	County WAYNE
Fiscal Year End JUNE 30, 2006	Opinion Date AUGUST 29, 2007	Date Audit Report Submitted to State NOVEMBER 16, 2007	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

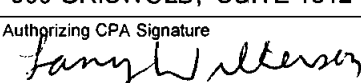
We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

YES NO **Check each applicable box below.** (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☐ ☒ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☐ ☒ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☐ ☒ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☐ ☒ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☐ ☒ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

<b>We have enclosed the following:</b>	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input type="checkbox"/>		
Certified Public Accountant (Firm Name) WILKERSON & ASSOCIATE, P.C.		Telephone Number (313) 967-0134	
Street Address 600 GRISWOLD, SUITE 1812		City DETROIT	State MI
		Zip 48226	
Authorizing CPA Signature 		Printed Name LARRY D. WILKERSON	License Number

CITY OF ECORSE, MICHIGAN  
COMPREHENSIVE ANNUAL FINANCIAL REPORT  
YEAR ENDED JUNE 30, 2006

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# Wilkerson & Associate, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

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LARRY WILKERSON, C.P.A.  
THOMAS E. WILKERSON, C.P.A.

## REPORT OF INDEPENDENT AUDITORS

City Council  
City of Ecorse, Michigan

We have audited the accompanying financial statements of the governmental activities, business-type activities, discretely presented component unit, major funds, and remaining fund information of the City of Ecorse, Michigan (the "City") as of and for the year ended June 30, 2006, which comprise the basic financial statements of the City's primary government as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial presentation. We believe that our audit provides a reasonable basis of our opinion.

The financial statements referred to above include the primary government of the City of Ecorse, Michigan, which consists of all funds, agencies, departments and offices that comprise the City's legal entity and the discretely presented component unit, Ecorse Brownfield Redevelopment Authority. The financial statements do not include financial data for the Ecorse Housing Commission, which is a legally separate component unit of the City, which accounting principles generally accepted in the United States of America require to be reported with the financial data of the city's primary government. As a result, the primary government financial statements do not purport to, and do not, present fairly the financial position of the reporting entity of the City of Ecorse, Michigan as of June 30, 2006, and the changes in its financial position and its cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, discretely presented component unit, Ecorse Brownfield Redevelopment Authority, each major fund, and the aggregate remaining fund information for the primary government of the City of Ecorse, Michigan as of June 30, 2006, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

**Members: A.I.C.P.A. and M.A.C.P.A.**

City Council  
City of Ecorse, Michigan

The accompanying financial statements have been prepared assuming that the City will continue as a going concern. As discussed in Note 12 to the financial statements, the City has suffered recurring operating deficits and has a significant unreserved, undesignated fund deficit in the General Fund that raise substantial doubt about its ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 12. The financial statements do not include any adjustment that might result from the uncertainty of this outcome.

The management's discussion and analysis and budgetary comparison information on pages 3 - 8, and pages 43 - 60 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements of the City's primary government. The combining and individual non-major fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual non-major fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Wilkerson & Associate, P.C.  
Certified Public Accountants

August 29, 2007

### **Overview of the Financial Statements**

The 2006 annual financial report of the City of Ecorse follows a different format than in previous years. This annual report has been changed to comply with the reporting requirements of the Government Accounting Standards Board Statement No. 34. The basic financial statements include two kinds of statements that present different views of the City. The first two statements are government-wide financial statements that provide both short-term and long-term information about the City's status. The remaining statements are fund financial statements that focus on individual parts of the City's operations.

### **Government-wide Statements**

The government-wide statements report information about the City as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two government-wide statements report the City's net assets and how they have changed. Net assets – the difference between the City's assets and liabilities – are one way to measure the City's financial health.

The government-wide financial statements of the City are divided into three categories:

- Government activities – Most of the City's basic services are included here, such as the police, fire, public works and recreation departments and general administration. Property taxes, State-shared revenue, charges for services, grants, and transfers provide much of the funding.
- Business-type activities – The City charges fees to customers to help it cover the costs of certain services it provides. The City's water and sewer systems are included here.
- Component units – The City, does not include the Ecorse Housing Commission in its report.

### **Fund Financial Statements**

The fund financial statements provide more detailed information about the City's most significant funds – not the City as a whole. Funds are accounting tools that the City uses to keep track of specific sources of funding and spending for particular purposes. Some funds are required by State law and bond covenants. The City Council establishes other funds to control and manage money for particular purposes.

The City has three kinds of funds:

- Government funds – Most of the City's basic services are included in governmental funds, which focus on how cash and other financial assets that can be converted to cash flow in and out, and the balance left at year end that is available for spending. The governmental fund statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.
- Proprietary funds – Services to which the City charges customers a fee are generally reported in proprietary funds. Proprietary fund reporting, like government-wide statements, provide both short and long-term financial information.
- Fiduciary funds – The City is responsible for ensuring that the assets in these funds are used for their intended purposes. We exclude these activities from the government-wide financial statements because the City cannot use these assets to finance its operations.

#### **Financial Highlights**

- Assets of the City exceeded its liabilities at the end of the fiscal year by \$11,202,416 (net assets), a decrease of \$5,504,956 from the previous year. Of the \$11,202,416 reported in net assets, approximately (\$3,097,997) is needed to meet the ongoing obligations to citizens and creditors (unrestricted net assets).
- Net assets of our governmental activities decreased \$6,184,000, or (1,486) %, while net assets of our business-type activities increased \$680,000 or 4%.
- Unrestricted net assets for governmental activities are (63) % of expenses. Unrestricted net assets for business-type activities are 172% of expenses.
- The General Fund reported expenses in excess of revenues by \$5,190,400, which decreases the Fund balance.

#### **The City as a Whole**

The City's combined net assets are \$11,202,416 at June 30, 2006. Business type activities make up \$17,802,690 and governmental activities make up (6,600,274) of the total. Future reports will provide an analysis of comparative data from the statement of activities. Comparative data is not required during the first year of reporting under GASB No. 34, and therefore, a comparative condensed statement of activities is not part of the management's discussion and analysis. In a condensed format, the table below shows a comparison of the net assets as of June 30, 2006 to the prior year.



**City of Ecorse – Net Assets**

As noted earlier, the City's assets exceed its liabilities at the end of the fiscal year by \$11 million (net assets). However, a major portion (121%) of the City's net assets represents its investment in capital assets (e.g. land, roads, infrastructure, buildings, and equipment) less any related debt used to acquire or construct these assets. The City uses these assets to provide services to its citizens; thus, these assets are not available for future spending.

Unrestricted net assets of the City decreased from \$692,427 at June 20, 2005 to (\$3,097,997) at the end of this year. This amount represents the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements.

Further, the City is able to report negative balances in two of three categories of net assets, for the government as a whole.

**City of Ecorse – Net Assets (in millions of dollars)**

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
<b>Assets</b>						
Current & Other Assets	1.3	4.0	9.0	7.5	10.3	11.5
Capital Assets	4.3	4.5	16.3	17.6	20.6	22.1
<b>Total assets</b>	<b>5.6</b>	<b>8.5</b>	<b>25.3</b>	<b>25.1</b>	<b>30.9</b>	<b>33.6</b>
<b>Liabilities</b>						
Long-term liabilities	7.2	6.3	6.3	7.0	13.5	13.3
Other liabilities	5.0	2.6	1.2	1.0	6.2	3.6
<b>Total liabilities</b>	<b>12.2</b>	<b>8.9</b>	<b>7.5</b>	<b>8.0</b>	<b>19.7</b>	<b>16.9</b>
<b>Net Assets</b>						
Invested in capital assets -						
Net of related debt	4.3	4.5	9.3	10.1	13.6	14.6
Restricted	0.3	0.3	0.4	1.1	0.7	1.4
Unrestricted	(11.2)	(5.2)	8.1	5.9	(3.1)	0.7
<b>Total net assets</b>	<b>(6.6)</b>	<b>(0.4)</b>	<b>17.8</b>	<b>17.1</b>	<b>11.2</b>	<b>16.7</b>

## City of Ecorse – Changes in Net assets (in millions of dollars)

	Governmental Activities		Business-type Activities		Total	
	2006	2005	2006	2005	2006	2005
<b>Revenues</b>						
Program revenues:						
Charges for service	1.20	1.54	5.36	5.07	6.56	6.61
Grants	0.21	0.28	-	-	0.21	0.28
General revenues:						
Property taxes	6.96	8.43	-	0.36	6.96	8.79
State-shared revenues	2.50	2.54	-	-	2.50	2.54
Other revenues	0.57	0.04	0.16	0.16	0.73	0.20
Total revenues	11.44	12.83	5.52	5.59	16.96	18.42
<b>Expenses</b>						
General government	7.22	5.92	-	-	7.22	5.92
Judicial	0.47	0.46	-	-	0.47	0.46
Public safety	7.19	6.81	-	-	7.19	6.81
Public works	2.06	1.85	-	-	2.06	1.85
Recreational/cultural	0.38	0.40	-	-	0.38	0.40
Interest on long-term debt	0.22	0.22	-	-	0.22	0.22
Water and sewer	-	-	4.69	3.90	4.69	3.90
Total expenses	17.54	15.66	4.69	3.90	22.23	19.56
Excess (deficiency) before transfers and other financing sources	(6.10)	(2.83)	0.83	1.69	(5.27)	(1.14)
Transfers	0.15	0.16	(0.15)	(0.16)	-	-
Principal paid on bond	(0.23)	(0.23)	-	-	(0.23)	(0.23)
Changes in net assets	(6.18)	(2.90)	0.68	1.53	(5.50)	(1.37)

**Governmental Activities**

For the year ended June 30, 2006, revenues for the City's governmental activities totaled \$11.59 million. Property taxes accounted for 60% of total revenue or \$6.96 million. State shared revenues were 22%, or \$2.5 million. There is concern for the future funding level of the state-shared revenues. It should be noted that the city invested heavily in capital improvements. These factors contributed to the deficit in the fund balance.

**Business-type Activities**

For the year ended June 30, 2006, revenues for business-type activities were \$5.52 million (net .15million of transfers). Charges for services were 97% of gross revenue, or \$5.36 million. The City has one business-type activity; the water and sewer system. City experienced an increase in net assets of approximately \$.68 million from the business-type activities. This increase is due to the fact that the water and sewer system is properly billing for services.

**Capital Assets and Debt Administration**

At the end of fiscal year 2006, the City has \$12.3 million in bonds versus \$13.1 million last year, a decrease of 6%:

The debt related to the fiscal stabilization bonds was \$5.33 million.

Debt related to the water and sewer system totaling \$6.96 million is recorded as a liability in the business-type activities in the statement of net assets. This debt represents improvements at the Wayne County Wastewater Treatment Plant that were mandated by a federal consent decree.

**The City's Funds**

The fund financial statements begin on page 11 and provide detailed information on the most significant governmental funds – not the City as a whole. The City Council creates funds to help manage money for special purposes, as well as to show accountability for certain activities such as special property tax mileages. The City's major governmental funds for 2006 include the General Fund, the Major and local Street Funds, Drug Enforcement Fund, Library Fund, Community Grant Fund and The Debt Service Fund. The City's governmental funds reported a combined deficit fund balance of (\$3.4) million for this year, a decrease of \$5.1 million over last year which had a \$1.7 million surplus. The debt service fund for this fiscal year resulted in a \$5,125 deficit. The other funds remain practically the same from prior year.

**General Fund Budgetary Highlights**

The budget was revised during the fiscal year. Actual expenses exceeded budgeted expenses by \$1.7 million. In addition, budgeted revenues exceeded actual revenues by \$ 2.5 million. The City revised the budget during the fiscal year. The city used some of the 1.2 million in 2005 fund balance to fund some capital projects.

**Current Economic Conditions**

The City has a deficit in the fund balances currently. Although it is anticipated that the State -- shared Revenue will decrease in the future, this will result in the city having a deficit fund balance. The city is reviewing the feasibility of sharing of services with the City of River Rouge. In addition the city has taken steps to reduce overtime in fire and police. These steps include hiring part-time policemen and firemen. The city is very aggressive in community development, with several future projects increasing the tax base of the city. Contract negotiations have resulted in a reasonable contract with AFSCME employees.

**Contacting the City's Financial Management**

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the City Controller's at 3869 Jefferson, Ecorse, Michigan.

**CITY OF ECORSE, MICHIGAN**  
**GOVERNMENT-WIDE STATEMENT OF NET ASSETS**  
**JUNE 30, 2006**

	Governmental Activities	Business-type Activities	Total Primary Government	Component Unit
<b>ASSETS</b>				
Cash and cash equivalents	\$ 184,575	\$ 1,627,443	\$ 1,812,019	\$ 150,134
Receivables, net	1,416	1,072,214	1,073,630	-
Receivables from other governments	353,297	-	353,297	-
Due (to) from other funds, net	-	3,047,620	3,047,620	-
Due from component unit, net	387,285	2,857,836	3,245,121	-
Prepaid expenses	181,574	-	181,574	-
Restricted assets:				
Cash and cash equivalents	196,872	430,583	627,455	-
Capital assets:				
Land	118,586	15,000	133,586	3,025,899
Construction in progress	-	-	-	-
Buildings, improvements and sewage system	9,640,320	22,815,667	32,455,987	-
Vehicles, equipment and furniture	2,526,671	727,846	3,254,517	-
Accumulated depreciation	(8,034,558)	(7,281,342)	(15,315,900)	-
<b>Total assets</b>	<b>5,556,038</b>	<b>25,312,867</b>	<b>30,868,905</b>	<b>3,176,033</b>
<b>LIABILITIES</b>				
Accounts payable	455,642	553,554	1,009,196	-
Accrued wages and benefits	325,378	989	326,367	-
Due to other governments	897,672	-	897,672	-
Due to other funds, net	3,047,620	-	3,047,620	387,285
Due to component unit, net	-	-	-	2,857,836
Non-current liabilities:				
Due within one year	235,000	610,755	845,755	-
Due in more than one year	7,195,000	6,344,880	13,539,880	-
<b>Total liabilities</b>	<b>12,156,312</b>	<b>7,510,177</b>	<b>19,666,489</b>	<b>3,245,121</b>
<b>NET ASSETS</b>				
Invested in capital assets, net of related debt	4,251,019	9,321,536	13,572,555	3,025,899
Restricted for debt service	297,275	430,583	727,858	-
Unrestricted	(11,148,568)	8,050,571	(3,097,997)	(3,094,987)
<b>Total net assets</b>	<b>(6,600,274)</b>	<b>17,802,690</b>	<b>11,202,416</b>	<b>(69,088)</b>
<b>Total net assets and liabilities</b>	<b>\$ 5,556,038</b>	<b>\$ 25,312,867</b>	<b>\$ 30,868,905</b>	<b>\$ 3,176,033</b>

See Accompanying Notes to Basic Financial Statements

**CITY OF ECORSE, MICHIGAN  
GOVERNMENT-WIDE STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2006**

	Program Revenues			Net (Expenses) Revenues and Changes in Net Assets			Component Unit
	Expenses	Fees, Fines and Charges for Services	Operating Grants	Governmental Activities	Business-type Activities	Total	
Program Activities							
Brownfield Redevelopment Authority							
Governmental activities:							
General government and administration	\$ 7,451,125	\$ 344,039	\$ 20,750	\$ (7,086,336)	\$ -	\$ (7,086,336)	\$ -
Judicial	469,183	665,657	-	196,474	-	196,474	-
Public safety	7,186,252	187,636	-	(6,998,616)	-	(6,998,616)	-
Public works	2,064,152	-	181,247	(1,882,905)	-	(1,882,905)	-
Recreational/cultural	375,771	-	8,455	(367,316)	-	(367,316)	-
Other	9,916	-	-	(9,916)	-	(9,916)	-
Interest on long-term debt	219,356	-	-	(219,356)	-	(219,356)	-
Total governmental activities	17,775,755	1,197,332	210,452	(16,367,971)	-	(16,367,971)	-
Business-type activities:							
Water and sewer	4,688,690	5,357,964	-	-	669,274	669,274	-
Total government	\$ 22,464,445	\$ 6,555,296	\$ 210,452	(16,367,971)	669,274	(15,698,697)	-
Component Unit:							
Brownfield Redevelopment Authority	\$ (69,088)	\$ -	\$ -	-	-	-	(69,088)
General revenues							
Property taxes				6,960,235	-	6,960,235	-
State-shared revenue				2,494,874	-	2,494,874	-
Interest income				171,386	126,576	297,962	-
Miscellaneous				403,999	36,690	440,689	-
Transfers				153,472	(153,472)	-	3,245,121
Total general revenues and transfers				10,183,966	9,794	10,193,760	3,245,121
Change in net assets				(6,184,005)	679,068	(5,504,937)	3,176,033
Net assets, July 1, 2005				(416,269)	17,123,622	16,707,353	-
Net assets, June 30, 2006				\$ (6,600,274)	\$ 17,802,690	\$ 11,202,416	\$ 3,176,033

See Accompanying Notes to Basic Financial Statements

**CITY OF ECORSE, MICHIGAN**  
**BALANCE SHEET - GOVERNMENTAL FUNDS**  
**JUNE 30, 2006**

	General	Debt Service	Non-major Special Revenue Funds	Total Governmental Funds
<b>Assets</b>				
Cash and cash equivalents	\$ -	\$ 196,872	\$ 131,815	\$ 328,687
Receivables - net	1,416	-	-	1,416
Due from other governments	218,453	-	134,844	353,297
Due (to) from other funds, net	-	-	21,617	21,617
Prepaid expenses	44,867	136,707	-	181,574
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Total assets	<u>\$ 264,736</u>	<u>\$ 333,579</u>	<u>\$ 288,276</u>	<u>\$ 886,591</u>
<b>Liabilities</b>				
Accounts payable	401,306	-	54,336	455,642
Due to bank accounts	235,975	-	-	235,975
Accrued wages and benefits	325,378	-	-	325,378
Due to other funds, net	3,254,585	-	-	3,254,585
Accrued interest	-	36,304	-	36,304
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Total liabilities	4,217,244	36,304	54,336	4,307,884
<b>Fund Balances</b>				
Restricted for debt service	-	297,275	-	297,275
Unrestricted	(3,952,508)	-	233,940	(3,718,568)
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Total fund balances	(3,952,508)	297,275	233,940	(3,421,293)
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Total liabilities and fund balances	<u>\$ 264,736</u>	<u>\$ 333,579</u>	<u>\$ 288,276</u>	<u>\$ 886,591</u>

See Accompanying Notes to Basic Financial Statements

**CITY OF ECORSE, MICHIGAN**  
**RECONCILIATION OF THE GOVERNMENTAL FUNDS**  
**BALANCE SHEET TO THE STATEMENT OF NET ASSETS**  
**JUNE 30, 2006**

Total fund balance - total governmental funds	\$ (3,421,293)
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Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not current financial resources and therefore are not reported in the governmental funds balance sheet	4,251,019
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Long-term liabilities are not due and payable in the current period and, therefore, they are not reported in the governmental funds balance sheet	<u>(7,430,000)</u>
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Net assets of governmental activities	<u><u>\$ (6,600,274)</u></u>
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See Accompanying Notes to Basic Financial Statements



**CITY OF ECORSE, MICHIGAN**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN**  
**FUND BALANCES - GOVERNMENTAL FUNDS**  
**YEAR ENDED JUNE 30, 2006**

	General	Debt Service	Non-major Special Revenue Funds	Total Governmental Funds
<b>Revenues</b>				
Property taxes	\$ 6,897,839	\$ -	\$ 62,396	\$ 6,960,235
State shared revenues	1,886,437	-	608,437	2,494,874
Grants	29,205	-	177,747	206,952
Licenses and permits	271,599	-	-	271,599
Fees and charges	908,164	-	17,569	925,733
Other revenues	403,999	-	3,500	407,499
Interest income	157,507	6,617	7,262	171,386
Total revenues	10,554,750	6,617	876,911	11,438,278
<b>Expenditures</b>				
General government & legislative	6,216,758	-	-	6,216,758
Judicial	469,183	-	-	469,183
Public safety	5,809,434	-	12,451	5,821,886
Public works	1,414,249	-	572,148	1,986,397
Recreational/cultural	185,136	-	151,758	336,894
Capital outlays	317,177	-	-	317,177
Other	-	9,916	-	9,916
Debt service - interest paid	-	219,356	-	219,356
Total expenditures	14,411,937	229,272	736,357	15,377,566
Revenues over (under) expenditures	(3,857,187)	(222,655)	140,554	(3,939,287)
<b>Other financing sources (uses)</b>				
Charter Police/Fire pension judgment	(1,100,000)	-	-	(1,100,000)
Principal paid on fiscal stabilization bond	-	(230,000)	-	(230,000)
Transfers to debt service fund	(447,530)	447,530	-	-
Transfers in (out) for administration	60,844	-	(60,844)	-
Transfers in (out) special revenue funds	-	-	-	-
Transfers in for administration from proprietary fund	153,472	-	-	153,472
Total other financing sources (uses)	(1,333,214)	217,530	(60,844)	(1,176,528)
Revenues over (under) expenditures and other financing sources (uses)	(5,190,401)	(5,125)	79,710	(5,115,816)
Fund balances, July 1, 2005	1,237,893	302,400	154,230	1,694,523
Fund balances, June 30, 2006	\$ (3,952,508)	\$ 297,275	\$ 233,940	\$ (3,421,293)

See Accompanying Notes to Basic Financial Statements

**CITY OF ECORSE, MICHIGAN  
RECONCILIATION OF THE STATEMENT OF REVENUES,  
EXPENDITURES AND CHANGES IN FUND BALANCE OF  
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2006**

Net change in fund balances - total governmental funds	\$ (5,115,816)
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Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures, however, in the government-wide statement of activities and changes in net assets, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount of capital assets recorded in the current period	317,177
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Depreciation expense on capital assets is reported in the government-wide statement of activities and changes in net assets, but they do not require the use of current financial resources. Therefore, depreciation expense is not reported as an expenditure in governmental funds	(518,365)
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The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance cost when first issued, whereas the amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items	<u>(867,001)</u>
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Changes in net assets of governmental activities	<u><u>\$ (6,184,005)</u></u>
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See Accompanying Notes to Basic Financial Statements

**CITY OF ECORSE, MICHIGAN**  
**STATEMENT OF REVENUES, EXPENDITURES AND**  
**CHANGES IN FUND BALANCES - GENERAL FUND**  
**BUDGET TO ACTUAL**  
**YEAR ENDED JUNE 30, 2006**

	Budgeted Amounts Original and Final	Actual GAAP Basis	Budget Variance Positive (Negative)
<b>Revenues</b>			
Property taxes	\$ 8,957,195	\$ 6,897,839	\$ (2,059,356)
State shared revenues	1,900,000	1,886,437	(13,563)
Grants	75,000	29,205	(45,795)
Licenses and permits	288,600	271,599	(17,001)
Fees and charges	1,180,000	908,164	(271,836)
Other revenues	536,225	403,999	(132,226)
Interest income	100,000	157,507	57,507
<b>Total revenues</b>	<b>13,037,020</b>	<b>10,554,750</b>	<b>(2,482,270)</b>
<b>Expenditures</b>			
General government & legislative	5,671,985	6,216,758	(544,773)
Judicial	455,225	469,183	(13,958)
Public safety	4,828,655	5,809,434	(980,779)
Public works	1,559,000	1,414,248	144,752
Recreational/cultural	191,750	185,136	6,614
Capital outlays	5,000	317,177	(312,177)
<b>Total expenditures</b>	<b>12,711,615</b>	<b>14,411,937</b>	<b>(1,700,322)</b>
Revenues over (under) expenditures	325,405	(3,857,187)	(4,182,592)
<b>Other financing sources (uses)</b>			
Charter Police/Fire pension judgment	(1,100,000)	(1,100,000)	-
Transfers to debt service fund	(450,000)	(447,530)	2,470
Transfers in (out) for administration	-	60,844	60,844
Transfers in (out) special revenue funds	-	-	-
Transfers in for administration from proprietary fund	-	153,472	153,472
<b>Total other financing sources (uses)</b>	<b>(1,550,000)</b>	<b>(1,333,214)</b>	<b>216,786</b>
Revenues over (under) expenditures and other financing sources (uses)	(1,224,595)	(5,190,401)	(3,965,806)
Fund balances, July 1, 2005	1,237,893	1,237,893	-
Fund balances, June 30, 2006	\$ 13,298	\$ (3,952,508)	\$ (3,965,806)

See Accompanying Notes to Basic Financial Statements

**CITY OF ECORSE, MICHIGAN**  
**STATEMENT OF NET ASSETS**  
**PROPRIETARY FUND - WATER AND SEWER FUND**  
**JUNE 30, 2006**

**Assets**

**Current Assets:**

Cash	\$ 1,627,443
Accounts receivable - trade, net of allowance for doubtful accounts	1,072,214
Due from other funds, net	<u>5,905,456</u>
Total Current Assets	<u>8,605,113</u>

**Restricted Assets:**

Cash	<u>430,583</u>
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**Noncurrent Assets:**

**Capital Assets:**

Land	15,000
Building and improvements	22,815,667
Machinery and equipment	727,846
Accumulated depreciation	<u>(7,281,342)</u>

Total Capital Assets, net of Accumulated Depreciation	<u>16,277,171</u>
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Total Assets	<u><u>\$ 25,312,867</u></u>
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**Liabilities**

**Current Liabilities:**

Accounts payable	\$ 553,553
Accrued wages and benefits	989
Current maturities of long term debt	<u>610,755</u>

Total Current Liabilities	1,165,297
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**Noncurrent Liabilities:**

Long-term debt, net of current maturities	<u>6,344,880</u>
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Total Liabilities	<u>7,510,177</u>
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**Net Assets**

Invested in capital assets, net of related debt	9,321,536
Restricted for debt service	430,583
Unrestricted	<u>8,050,571</u>

Total Net Assets	<u>17,802,690</u>
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Total Liabilities and Net Assets	<u><u>\$ 25,312,867</u></u>
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See Accompanying Notes to Basic Financial Statements

**CITY OF ECORSE, MICHIGAN**  
**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET**  
**ASSETS - PROPRIETARY FUND - WATER AND SEWER FUND**  
**YEAR ENDED JUNE 30, 2006**

<b>Operating Revenues:</b>	
Water charges	\$ 2,446,368
Sewer charges	2,799,996
Miscellaneous charges	<u>111,600</u>
Total operating revenues	<u>5,357,964</u>
<b>Operating Expenses:</b>	
Water cost	716,190
Sewer cost	1,447,668
Salaries, payroll taxes and employee benefits	54,953
Supplies, maintenance and utilities	1,387,966
Other expenses	54,626
Depreciation	<u>864,654</u>
Total operating expenses	<u>4,526,057</u>
Income from operations	<u>831,907</u>
<b>Nonoperating revenues (expenses)</b>	
Interest income	126,576
Sales of excess capacity	36,690
Property taxes	-
Interest expense	<u>(162,633)</u>
Total nonoperating revenues (expenses)	633
Income before transfers	832,540
Transfers to general fund for administration	(153,472)
Transfers to local streets fund	-
Transfers to community development block fund	<u>-</u>
Total transfers	<u>(153,472)</u>
Change in net assets	679,068
Net assets, July 1, 2005	<u>17,123,622</u>
Net assets, June 30, 2006	<u><u>\$ 17,802,690</u></u>

See Accompanying Notes to Basic Financial Statements

**CITY OF ECORSE, MICHIGAN  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUND - WATER AND SEWER FUND  
YEAR ENDED JUNE 30, 2006**

**CASH FLOWS FROM OPERATING ACTIVITIES:**

Cash received from customers	\$ 6,351,500
Cash payments to suppliers for goods and services	(3,498,297)
Cash payments to employees for services	<u>(54,953)</u>
Net cash provided by operating activities	2,798,250

**CASH FLOWS FROM NON-CAPITAL FINANCIAL ACTIVITIES:**

Increase in amounts due from other funds - net	(4,437,610)
Transfers to primary government for administration and other	<u>(153,472)</u>
Net cash used by non-capital financial activities	(4,591,082)

**CASH FLOWS FROM CAPITAL  
AND RELATED FINANCING ACTIVITIES:**

Acquisition of capital assets	(2,176,229)
Transfer of Land Assets to Brownfield Redevelopment Authority	2,717,454
Cash received from sale of excess sewer capacity	36,690
Principal paid on long-term obligations	(606,326)
Interest paid on long-term obligations	<u>(162,633)</u>
Net cash used by capital and related financing activities	(191,044)

**CASH FLOWS FROM INVESTING ACTIVITIES:**

Decrease in reserve funds at Wayne County	708,646
Investment Income	<u>126,576</u>
Net cash provided by investing activities	<u>835,222</u>
Decrease in cash and cash equivalents	(1,148,654)

<b>CASH AND CASH EQUIVALENTS AT JULY 1, 2005</b>	<u><u>2,776,087</u></u>
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<b>CASH AND CASH EQUIVALENTS AT JUNE 30, 2006</b>	<u><u>\$ 1,627,433</u></u>
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See Accompanying Notes to Basic Financial Statements

**CITY OF ECORSE, MICHIGAN  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUND - WATER AND SEWER FUND  
YEAR ENDED JUNE 30, 2006**

**RECONCILIATION OF OPERATING INCOME  
TO NET CASH PROVIDED BY OPERATING ACTIVITIES:**

Operating income	\$ 831,907
Adjustments to reconcile net loss to net cash provided by operating activities:	
Depreciation	864,654
Changes in current assets and liabilities:	
Decrease in accounts receivable - trade	993,536
Increase in accounts payable	108,153
Increase in accrued wages and benefits	<u>-</u>
Total adjustments	<u>1,966,343</u>
Net cash provided by operating activities	<u><u>\$ 2,798,250</u></u>

See Accompanying Notes to Basic Financial Statements

**CITY OF ECORSE, MICHIGAN  
STATEMENT OF NET ASSETS -  
FIDUCIARY FUNDS  
JUNE 30, 2006**

	<u>Police and Fire Pension Trust</u>	<u>Agency Funds</u>
<b>Assets</b>		
Cash	\$ -	\$ 288,734
Short Term Investments	74,510	-
Deposits	-	2,500
Due from other governmental units	-	766,828
Due from other funds	-	3,943,758
	<u>          </u>	<u>          </u>
Total Assets	<u>\$ 74,510</u>	<u>\$ 5,001,820</u>
<b>Liabilities:</b>		
Due to other governmental units	\$ -	\$ 1,498,427
Due to other funds	-	3,371,125
Refundable court bonds	-	58,121
Deposits	-	61,322
Other liabilities	-	12,825
	<u>          </u>	<u>          </u>
Total Liabilities	<u>-</u>	<u>\$ 5,001,820</u>
<b>Net Assets</b>		
Restricted for pension benefits	<u>-</u>	
Total Net Assets	<u>\$ 74,510</u>	

See Accompanying Notes to Basic Financial Statements



**CITY OF ECORSE, MICHIGAN  
STATEMENT OF CHANGES IN NET ASSETS -  
PENSION TRUST FUND  
YEAR ENDED JUNE 30, 2006**

**ADDITIONS**

Interest and dividends	\$ 329,424
Net appreciation in market value of investments	129,273
Investment expenses	<u>(103,021)</u>
Net investment income	<u>355,676</u>
Total additions	<u>355,676</u>

**DEDUCTIONS**

Benefit payments	661,886
Transfer to MERS Retirement Account	8,720,444
Lump-sum distributions	<u>-</u>
Total deductions	<u>9,382,330</u>

<b>NET DECREASE</b>	<b>(9,026,654)</b>
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**NET ASSETS HELD IN TRUST FOR  
PENSION BENEFITS:**

Balance at July 1, 2005	<u>9,101,164</u>
Balance at June 30, 2006	<u><u>\$ 74,510</u></u>

See Accompanying Notes to Basic Financial Statements

**CITY OF ECORSE, MICHIGAN**  
**STATEMENT OF NET ASSETS - COMPONENT UNIT**  
**JUNE 30, 2006**

	Brownfield Redevelopment Authority
<b>ASSETS</b>	
Cash and cash equivalents	\$ 150,134
Receivables, net	-
Receivables from other governments	-
Due from other funds, net	-
Prepaid expenses	-
Restricted assets:	
Cash and cash equivalents	-
Capital assets:	
Land	3,025,899
Construction in progress	
Buildings, improvements and sewage system	-
Vehicles, equipment and furniture	-
Accumulated depreciation	-
	<hr/>
Total assets	3,176,033
	<hr/> <hr/>
<b>LIABILITIES</b>	
Accounts payable	\$ -
Accrued wages and benefits	-
Other accrued liabilities	-
Due to other funds, net	3,245,121
Non-current liabilities:	
Due within one year	-
Due in more than one year	-
	<hr/>
Total liabilities	3,245,121
	<hr/> <hr/>
<b>NET ASSETS</b>	
Invested in capital assets, net of related debt	3,025,899
Restricted for debt service	-
Unrestricted	(3,094,987)
	<hr/>
Total net assets	(69,088)
	<hr/> <hr/>
Total net assets and liabilities	\$ 3,176,033
	<hr/> <hr/>

See Accompanying Notes to Basic Financial Statements

**CITY OF ECORSE, MICHIGAN**  
**STATEMENT OF ACTIVITIES-COMPONENT UNIT**  
**YEAR ENDED JUNE 30, 2006**

		Program Revenues		Net (Expenses) Revenues and Changes in Net Assets
	Expenses	Fees, Fines and Charges for Services	Operating Grants	Brownfield Redevelopment Authority Total
<b>Program Activities</b>				
<b>Brownfield Redevelopment Authority</b>				
Governmental activities:				
Brownfield Redevelopment Authority	\$ 69,088	\$ -	\$ -	\$ (69,088)
Judicial	-	-	-	-
Public safety	-	-	-	-
Public works	-	-	-	-
Recreational/cultural	-	-	-	-
Other	-	-	-	-
Interest on long-term debt	-	-	-	-
<b>Total Brownfield Redevelopment Authority</b>	<b>\$ 69,088</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ (69,088)</b>
General revenues:				
Property taxes				-
State-shared revenue				-
Interest income				-
Miscellaneous				-
Transfers from other Funds				3,245,121
<b>Total general revenues and transfers</b>				<b>3,245,121</b>
<b>Change in net assets</b>				<b>3,176,033</b>
<b>Net assets, July 1, 2005</b>				<b>-</b>
<b>Net assets, June 30, 2006</b>				<b>\$ 3,176,033</b>

See Accompanying Notes to Basic Financial Statements

**CITY OF ECORSE, MICHIGAN**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2006**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The City of Ecorse, Michigan, a municipal corporation organized under the laws of the State of Michigan, was incorporated in September 1941. The City has operated under a Mayor-Council form of government and provides the following services as authorized by its Charter: general government, public safety, public works, recreational and cultural, water and sewer services, community development, justice and other.

The City's financial statements are prepared in accordance with generally accepted accounting principles (GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989 (when applicable) that do not conflict with or contradict GASB pronouncements. Although the City has the option to apply FASB pronouncements issued after that date to its business-type activities and enterprise fund, the City has chosen not to do so. The more significant accounting policies established in GAAP and used by the City are discussed below.

In June 1999, the Governmental Accounting Standards Board (GASB) unanimously approved Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis – for State and Local Governments*. Certain of the significant changes in the Statement include the following:

The financial statements include:

- A Management and Discussion and Analysis (MD&A) section providing an analysis of the City's overall financial position and results of operations.
- Financial statements prepared using full accrual accounting for all of the City's activities, including capital assets.
- A change in the fund financial statements to focus on the major funds.

These and other changes are reflected in the accompanying financial statements (including notes to financial statements). The City has elected to implement the general provisions of the Statement in the current year and plans to retroactively report infrastructure (assets acquired prior to July 1, 2002 in the fiscal year ending June 30, 2006).

**CITY OF ECORSE, MICHIGAN**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2006**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**A. Reporting Entity**

**1. Primary Government**

These financial statements present the City (the primary government). The City includes the Brownfield Redevelopment Authority, a component unit of the City in its report. Another component unit of the City, the Ecorse Housing Commission, is not included in these statements as required by GASB No. 14. Component units are legally separate entities that are included in the City's reporting entity because of the significance of their operating or financial relationships with the City.

**2. Discretely Presented Component Unit**

The Brownfield Redevelopment Authority (the "BRA") was created to provide for the creation of Brownfield Redevelopment Zones which would provide revitalization, redevelopment, and re-use of certain property. These properties include, but are not limited to tax reverted, blighted or functionally obsolete property. The BRA may also issue bonds and other evidences of indebtedness, authorize acquisition, transfer, and disposal of certain property, authorize funds to finance its operations, and authorize and permit the use of certain tax increment financing. The BRA's governing body, which consists of five individuals, is appointed by the Mayor with the approval of the City Council. A separate financial report for the BRA is not available.

**B. Basic Financial Statements – Government-Wide Statements**

The City's basic financial statements include both government-wide (reporting the City as a whole) and fund financial statements (reporting the City's major funds). Both the government-wide and fund financial statements categorize primary activities as either governmental or business-type. The City's police and fire protection, recreation, public works, library and general administrative activities are classified as governmental activities. The City's water and sewer activities are classified as business-type activities.

**CITY OF ECORSE, MICHIGAN**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2006**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**B. Basic Financial Statements – Government-Wide Statements (Continued)**

In the government-wide Statement of Net Assets, both the governmental and business-type activities columns (a) are presented on a consolidated basis by column, (b) and are reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The City's net assets are reported in three parts-invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets. The City first utilizes unrestricted resources to finance qualifying activities.

The government-wide Statement of Activities reports both the gross and net cost of each of the City's functions and business-type activities (police, fire, public works, etc.). The functions are also supported by general government revenues (property taxes, fines, permits and charges, etc.). The Statement of Activities reduces gross expenses (including depreciation) by related program revenues and operating grants. Program revenues must be directly associated with the function (police, public works, community services, etc.) or a business-type activity. Operating grants include operating-specific and discretionary grants.

The City does not allocate indirect costs. An administrative service fee is charges by the General Fund to the Water Fund, the Major Street Fund, the Local Street Fund and the Community Development Block Grant Fund. These charges are eliminated as reimbursements to recover indirect costs of the General Fund to the other funds.

This government-wide focus is more on the substantiality of the City as an entity and the change in the City's net assets resulti ng from the current year's activities.

**C. Basic Financial Statements – Fund Financial Statements**

The financial transactions of the City are reported in individual funds in the fund financial statements. Each fund is accounted for by providing a separate set of self-balancing accounts that comprises its assets, liabilities, reserves, fund equity, revenues and expenditures/expenses. The various funds are reported by generic classification within the financial statements.

**CITY OF ECORSE, MICHIGAN**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2006**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**C. Basic Financial Statements – Fund Financial Statements**

The following fund types are used by the City:

**3. Governmental Funds**

The focus of the governmental funds' measurement (in the fund statements) is upon determination of financial position and changes in financial position (sources, uses, and balances of financial resources) rather than upon net income. The following is a description of the governmental funds of the City:

- a. **General fund** is the general operating account fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund.
- b. **Special revenue funds** are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes.

**2. Proprietary Fund**

The focus of proprietary fund measurement is upon determination of operating income, changes in net assets, financial position, and cash flows. The generally accepted accounting principles applicable are those similar to businesses in the private sector. The Water and Sewer Fund is the only fund in the City that meets those requirements. This type of fund is also known as an Enterprise Fund. Enterprise Funds are required to be used to account for operations for which a fee is charged to external users for goods or services and the activity is (a) financed with debt that is solely secured by a pledge of the net revenues, (b) has third party requirements that the cost of providing services, including capital costs, be recovered with fees and charges or (c) established fees and charges based on a pricing policy designed to recover similar costs.

**CITY OF ECORSE, MICHIGAN**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2006**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**3. Fiduciary Funds**

Fiduciary funds are used to report assets held in a trustee or agency capacity for others and therefore are not available to support City programs. The reporting focus is on net assets and changes in net assets and are reported using accounting principles similar to proprietary funds.

The emphasis in fund financial statements is on the major funds in either the governmental or business-type activity categories. Nonmajor funds by category are summarized into a single column. FASBS No. 34 sets forth minimum criteria (percentage of the assets, liabilities, revenues, or expenditures/expenses of either fund category or the governmental and enterprise combined) for the determination of major funds. The nonmajor funds are combined in a column in the fund financial statements.

The City's fiduciary funds are presented in the fiduciary fund financial statements by type (pension, private purpose and agency). Since by definition these assets are being held for the benefit of a third party (other local governments, private parties, pension participants, etc.), and cannot be used to address activities or obligations of the government, these funds are not incorporated into the government-wide statements.

**D. Basis of Accounting**

Basis of accounting refers to the point at which revenues or expenditures/expenses are recognized in the accounts and reported in the financial statements. It relates to the timing of the measurements made regardless of the measurement focus applied.

**1. Accrual**

Both governmental and business-type activities in the government-wide financial statements and the proprietary and fiduciary fund financial statements are presented on the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred.



**CITY OF ECORSE, MICHIGAN**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2006**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**2. Modified Accrual**

The governmental funds financial statements are presented on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual, i.e., both measurable and available. "Available" means collectible within the current period or within 60 days after year-end. Expenditures are generally recognized under the modified accrual basis of accounting when the related liability is incurred. The exception to this general rule is that principle and interest on general obligation long-term debt, if any, is recognized when due.

**E. Financial Statement Amounts**

**1. Cash and Cash Equivalents**

The City has defined cash and cash equivalents to include cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

**2. Investments**

Investments, including pension funds, are stated at fair value, (quoted market price or best available estimate).

**3. Capital Assets**

Capital assets purchased or acquired with an original cost of \$2,000 and an estimated useful life of 5 years or more are reported at historical cost or estimated historical cost. Contributed assets are reported at fair market value as of the date received. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation of assets is provided on the straight-line basis over the following estimated useful lives:

Buildings & Improvements	25 - 40 Years
Land Improvements	10 - 20 Years
Machinery & Equipment	5 - 10 Years
Vehicles	5 - 10 Years
Utility Systems	25 - 40 Years
Infrastructure	20 - 40 Years

**CITY OF ECORSE, MICHIGAN**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2006**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**3. Capital Assets (Continued)**

GASBS No. 34 requires the City to report and depreciate new infrastructure assets effective with the beginning of the current year. Infrastructure assets include roads, bridges, underground pipe (other than related to utilities), etc. These infrastructure assets are likely to be the largest asset class of the City. Neither their historical cost nor related depreciation has historically been reported in the financial statements. The retroactive reporting of infrastructure is subject to an extended implementation period and is first effective for fiscal years ending in 2006. The City elected to implement the general provisions of GASBS No. 34 in year ending June 30, 2003 and hopes to implement the retroactive infrastructure provisions (under the modified approach) in the fiscal year ending June 30, 2006.

**4. Revenues**

Substantially all governmental fund revenues are accrued. Property taxes are billed in a period prior to the period collected. Revenue is recognized for the period collected. Subsidies and grants to proprietary funds, which finance either capital or current operations, are reported as non-operating revenue based on GASBS No. 34 to grant revenues, the provider recognizes liabilities and expenses and the recipient recognizes receivables and revenue when the applicable eligibility requirements, including time requirements, are met.

Resources transmitted before the eligibility requirements are met are reported as advances by the provider and deferred revenue by the recipient.

**5. Expenditures**

The measurement focus of government fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Most expenditures are measurable and are recorded when the related liability is incurred. However, principal and interest on general long-term debt, which has not matured, are recognized when paid. Allocation of costs, such as depreciation and amortization, are not recognized in the governmental funds.

**CITY OF ECORSE, MICHIGAN**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2006**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**6. Compensated Absences**

The City accrues accumulated unpaid vacation and sick leave when earned (or estimated to be earned) by the employee. The non-current portion (the amount estimated to be used in subsequent fiscal years) for governmental funds is maintained separately and represents a reconciling item between the fund and government-wide presentations.

**7. Interfund Activity**

Interfund activity is reported as either loans, services provided, reimbursements or transfers. Loans are reported as interfund receivables and payables as appropriate and are subject to elimination upon consolidation. Services provided, deemed to be at market value or near market rates, are treated as revenues and expenditures/expenses. Reimbursements are when one fund incurs a cost, charges the appropriate benefiting fund and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers.

Transfers between governmental or proprietary funds are netted as part of the reconciliation to the government-wide financial statements.

**8. Use of Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**9. Revenue Concentration**

The Great Lakes Works division of United States Steel Corporation provides approximately 50% of the property tax revenue collected by the City. In addition, approximately 55% of the revenues of the Water and Sewer fund are derived from sales to the steel company.

**CITY OF ECORSE, MICHIGAN**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2006**

**NOTE 2 - BUDGET REQUIREMENTS, ACCOUNTING AND REPORTING**

The general government and special revenue funds are under formal budgetary control. In establishing the budgetary data reflected in the financial statements, the City charter requires the following procedures:

1. By February 1 of each year, department heads submit a listing of proposed expenditures to the controller. The controller then prepares a proposed budget for the fiscal year commencing on July 1, and submits it to the City Council. The annual operating budget includes all proposed expenditures and the financing sources which will pay for them.
2. Budgets are prepared on the modified accrual basis, which is the same basis used to reflect actual results.
3. Public hearings to obtain citizen comments are conducted.
4. The budgets are to be adopted by majority vote of the City Council by April 1.
5. Any revisions to the budget must be approved by majority vote of the City Council.

The budgets for the general fund and special revenue funds were adopted on March 29, 2005. The budget for the general fund was subsequently amended and adopted on June 20, 2006.

**NOTE 3 - CASH AND CASH EQUIVALENTS**

The City follows the practice of pooling cash and investment accounts for most funds. Cash, investments, and certificates of deposit for the proprietary fund are segregated. Investments of the Police and Fire Pension fund are held by outside trustees. Cash deposits are collateralized only to the extent of FDIC coverage.

The City's investment policies are governed by state statutes. General City funds must be deposited in government insured accounts in Michigan banks or thrifts. Permissible investments include obligations of the U.S. government and its agencies (either individually or in pooled funds); domestic certificates of deposit, commercial paper with prescribed ratings and repurchase agreements. The term of investments and the financial institutions used for investment purposes are determined based upon operating and other needs. As a matter of City policy, repurchase agreements are not used for investments.

**CITY OF ECORSE, MICHIGAN**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2006**

**NOTE 3 - CASH AND CASH EQUIVALENTS (CONTINUED)**

Restricted cash assets in the Governmental funds at June 30, 2006 consist of Stabilization Bond Fund cash totaling \$196,872 for bond debt repayment. Restricted cash assets in the Water Fund consist of cash amounts held at Wayne County totaling \$430,483 for water and sewer line debt construction repayment.

The aggregate cash balances, including restricted cash, at June 30, 2006 have been classified in the following to categories of risk:

	<u>Bank Balances</u>	<u>Book Balances</u>
Insured (FDIC)	\$ 100,000	\$ 100,000
Uninsured-uncollateralized	<u>2,832,513</u>	<u>2,489,608</u>
Total cash at June 30, 2006	<u>\$ 2,932,513</u>	<u>\$ 2,589,608</u>

Investments made by and currently in the City's Police and Fire Pension plan kept for remaining administrative expenses, which have not been transferred to MMERS, are all considered as category 3 - uninsured and unregistered, with securities held by a bank's trust department, and not in the City's name, as follows:

	<u>Cost</u>	<u>Market Value</u>
Money market	\$ 74,510	\$ 74,510
Domestic common stock	-	-
U.S. government securities	-	-
Accrued interest	<u>-</u>	<u>-</u>
Total	<u>\$ 74,510</u>	<u>\$ 74,510</u>

**NOTE 4 - PROPERTY TAXES**

The City's property tax is levied each July 1, on the assessed valuation as of December 31 of the preceding year, of property located within the City. Property taxes are for the next fiscal year commencing on July 1. Property taxes are payable without penalty up to each July 31. Assessed values are established annually by the City and are equalized by the Charter County of Wayne and the State of Michigan, subject to certain statutory limits.

**CITY OF ECORSE, MICHIGAN**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2006**

**NOTE 4 - PROPERTY TAXES (CONTINUED)**

The major portion of the City's tax revenue is generated from the summer tax levy and is recognized as revenue in the year received. Real and personal property in the City for the fiscal 2006 levy were equalized at \$249 million. The City's operating tax rates for the July 1, 2005 levy (2006 revenue), along with the related restrictions for its use, follows:

	<u>Operating</u>	<u>State Limit</u>
	(in mills)	(in mills)
General operating	19.00	
Police and Fire pension	0.25	
Longevity	0.50 *	
Library	0.25	
	<u>20.00</u>	<u>20.00</u>
Rubbish collection	<u>2.30</u>	

- \* The Citizens of the City approved a resolution stating that the excess of property tax revenue over the required longevity payments will be used for library operations. In 2006, approximately \$40,684 was used for library operations, which arose from that excess.

In addition to the above property tax millage rates, the City assesses sufficient mills to generate \$1.1 million in additional property taxes for the purpose of paying the judgement levy for funding the Police and Fire Pension Plan contribution. The assessment is divided between the summer and winter tax billings. In the 2006 fiscal year, the City collected approximately \$1,100,000 for the Police and Fire Pension Plan.

**CITY OF ECORSE, MICHIGAN**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2006**

**NOTE 5 - INTERFUND TRANSACTIONS AND BALANCES**

Interfund transfers during the year ended June 30, 2006, were as follows:

	Transfers In						Total
	General Fund	Local Streets Fund	Drug Enforcement Fund	Library Fund	CDBG Fund	Debt Service Fund	
<b>Transfers Out</b>							
Major Street Fund	\$ 44,357	\$ 110,893	\$ -	\$ -	\$ -	\$ -	\$ 155,250
Local Street Fund	16,487	-	-	-	-	-	16,487
Community Development Block Grant Fund	-	-	-	-	-	-	-
Water and Sewer Fund	153,472	-	-	-	-	-	153,472
General Fund	-	-	-	-	-	447,530	447,530
<b>Total</b>	<b>\$ 214,316</b>	<b>\$ 110,893</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 447,530</b>	<b>772,739</b>

Transfers were made for the following purposes:

- To move funds from special revenue funds and the proprietary fund to the general fund to allocate administrative costs (primarily personnel costs) to those funds.
- To reallocate available state revenues between the major and local street funds as allowed by State laws.
- To transfer funds from the general fund for debt service requirements.

Other fund transactions consisted of the collection of property taxes and delinquent water and sewer charges within the current tax collection fund and the subsequent payments for those items to the appropriate fund and the occasional payment made from one fund's cash account for the benefit of another fund.

**CITY OF ECORSE, MICHIGAN**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2006**

**NOTE 5 - INTERFUND TRANSACTIONS AND BALANCES (CONTINUED)**

Interfund balances at June 30, 2006, were as follows:

	<u>Receivables</u>	<u>Payables</u>
General fund:		
District court trust fund	\$ 48,246	\$ -
Fire insurance escrow fund	-	15,179
Major streets fund	109,526	187,730
Local streets fund	78,903	66,621
Drug forfeiture fund	122	510
Water and sewer fund	323,028	118,404
Library fund	47,834	-
Community Development Block Grant	9,595	-
Brownfield Redevelopment Authority	387,285	
Current tax collection fund	-	3,870,680
Major streets fund:	-	
General fund	187,730	109,526
Local streets fund		213,838
Water and sewer fund	173,434	-
Current tax collection fund	-	24,485
Local streets fund:		
General fund	66,621	78,903
Major streets fund	213,838	-
Water and sewer fund	-	200,000
Drug forfeiture fund:		
General fund	510	122
Water and sewer fund	1,595	-
Current tax collection fund	-	203
Library fund:		
General fund	-	47,834
Current tax collection fund	62,396	-
Community Development Block Grant Fund:		
General fund	-	9,595
Brownfield Redevelopment Authority:		
General fund		387,285
Water and sewer fund		2,857,836



**CITY OF ECORSE, MICHIGAN**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2006**

**NOTE 5 - INTERFUND TRANSACTIONS AND BALANCES (CONTINUED)**

Water and sewer funds:		
Current tax collection fund	3,260,483	33,210
General fund	118,404	323,028
Major streets fund	-	173,434
Local streets fund	200,000	-
Drug forfeiture fund	-	1,595
Brownfield Redevelopment Authority	2,857,836	-
Current tax collection fund:		
General fund	3,870,680	-
Major streets fund	24,485	-
Drug forfeiture fund	203	62,396
Library fund	-	-
Water and sewer fund	33,210	3,260,483
Fire insurance escrow fund:		
General fund	15,179	-
District Court Trust fund:		
General fund	-	48,246
	<hr/>	<hr/>
Totals	<u>\$ 12,091,143</u>	<u>\$ 12,091,143</u>

**CITY OF ECORSE, MICHIGAN**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2006**

**NOTE 6 - CAPITAL ASSETS**

Capital asset activity for the year ended June 30, 2006, was as follows:

	Balance June 30, 2005	Additions July 1, 2005 June 30, 2006	Balance June 30, 2006
Governmental activities:			
Capital assets not being depreciated:			
Land	\$ 96,000	\$ 22,586	\$ 118,586
Capital assets being depreciated:			
Buildings	9,640,320	-	9,640,320
Vehicles	1,125,853	205,932	1,331,785
Equipment	958,205	88,659	1,046,864
Furniture and fixtures	148,022	-	148,022
Total capital assets being depreciated	<u>11,872,400</u>	<u>294,591</u>	<u>12,166,991</u>
Less accumulated depreciation for:			
Buildings	6,248,724	316,408	6,565,132
Vehicles	663,880	103,560	767,440
Equipment	517,091	89,822	606,913
Furniture and fixtures	86,498	8,575	95,073
Total accumulated depreciation	<u>7,516,193</u>	<u>518,365</u>	<u>8,034,558</u>
Total capital assets being depreciated, net	<u>4,356,207</u>	<u>(223,774)</u>	<u>4,132,433</u>
Government activities capital assets, net	<u>\$ 4,452,207</u>	<u>\$ (201,188)</u>	<u>\$ 4,251,019</u>
Business-type activities:			
Capital assets not being depreciated:			
Land	\$ 2,732,454	\$ (2,717,454)	\$ 15,000
Construction in progress	-	-	-
Capital assets being depreciated:			
Buildings, improvements, and			
Sewage system	20,639,438	2,176,229	22,815,667
Machinery and equipment	727,846	-	727,846
Total capital assets being depreciated	<u>21,367,284</u>	<u>2,176,229</u>	<u>23,543,513</u>
Less accumulated depreciation for:			
Buildings, improvements, and			
Sewage system	5,711,777	-	5,711,777
Machinery and equipment	704,911	-	704,911
Total accumulated depreciation	<u>6,416,688</u>	<u>-</u>	<u>6,416,688</u>
Total capital assets being depreciated, net	<u>14,950,596</u>	<u>-</u>	<u>14,950,596</u>
Business-type activities capital assets, net	<u>\$ 17,683,050</u>	<u>\$ -</u>	<u>\$ 17,683,050</u>

**CITY OF ECORSE, MICHIGAN**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2006**

**NOTE 6 - CAPITAL ASSETS (Continued)**

Less accumulated depreciation for:

Buildings, improvements, and  
sewage system

5,711,777                      846,050                      6,557,827

Machinery and equipment

704,911                      18,604                      723,515

Total accumulated depreciation

6,416,688                      864,654                      7,281,342

Total capital assets being depreciated, net

14,950,596                      1,311,575                      16,262,171

Business-type activities capital assets, net

\$ 14,950,596                      \$ 1,311,575                      \$ 16,262,171

Component Unit - Brownfield

Redevelopment Authority:

Capital assets not being depreciated:

Land and land improvements

-                      3,025,899                      \$ 3,025,899

Depreciation expense was charged as a direct expense to programs of the primary government, as follows:

Governmental Activities:

General government and administration

\$ 137,367

Public safety

264,366

Public works

77,755

Cultural and recreational

38,877

Total depreciation expense-government activities

\$ 518,365

Business-type activities - Water and sewer fund

\$ 864,654

**CITY OF ECORSE, MICHIGAN**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2006**

**NOTE 7 - DEBT AND OTHER OBLIGATIONS**

At June 30, 2006, long-term debt consisted of the following:

Governmental Activities:

Fiscal Stabilization Bonds, series 2002, due in annual installments of \$220,000 to \$430,000 through November 2002 with interest at rates varying between 2% and 5%, collateralized by an assignment of State revenue sharing payments	\$ 5,325,000
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Compensated absences	500,000
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Claims and litigation	1,605,000
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Business-type Activities:

State revolving fund loans, payable to the Charter County of Wayne, due in annual installments of \$577,000 to \$825,000 plus interest through October 2019. These loans are paid in part by a City levy on County tax rolls	<u>6,955,635</u>
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Total long-term debt	14,385,635
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Current maturities	<u>845,755</u>
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Long-term Debt	<u><u>\$ 13,539,880</u></u>
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**CITY OF ECORSE, MICHIGAN**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2006**

**NOTE 7 - DEBT AND OTHER OBLIGATIONS (CONTINUED)**

Transactions for the year ended June 30, 2006 are summarized as follows:

	Balance July 1, 2005	Additions	Reductions	Balance June 30, 2006
Governmental type activities:				
Fiscal stabilization bonds	\$ 5,555,000	\$ -	\$ 230,000	\$ 5,325,000
Compensated absences	599,000	-	99,000	500,000
Claims and litigation	409,000	1,196,000	-	1,605,000
Total governmental activities	\$ 6,563,000	\$ 1,196,000	\$ 329,000	\$ 7,430,000
Business-type activities:				
State revolving fund loans	7,561,961	-	606,326	6,955,635
Total Government	<u>\$ 14,124,961</u>	<u>\$ 1,196,000</u>	<u>\$ 935,326</u>	<u>\$ 14,385,635</u>

The aggregate annual maturities for each bond-type of debt, are as follows:

Year ending June 30	Governmental Activities			Business-type Activities		
	Principle	Interest	Total	Principle	Interest	Total
2007	\$ 235,000	\$ 215,120	\$ 450,120	\$ 610,755	\$ 149,642	\$ 760,397
2008	240,000	209,178	449,178	631,109	135,895	767,004
2009	245,000	202,263	447,263	640,830	122,556	763,386
2010	255,000	194,508	449,508	655,640	108,975	764,615
2011	260,000	185,878	445,878	670,000	96,000	766,000
thereafter	4,090,000	1,211,101	5,301,101	3,747,301	282,212	4,029,513
Total	<u>\$ 5,325,000</u>	<u>\$ 2,218,048</u>	<u>\$ 7,543,048</u>	<u>\$ 6,955,635</u>	<u>\$ 895,280</u>	<u>\$ 7,850,915</u>

**CITY OF ECORSE, MICHIGAN**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2006**

**NOTE 8 - PENSION PLANS**

Police and Fire Pension – Single-Employer Plan

The City maintains a single-employer pension plan for members of its police and fire departments. This plan is administered by a three member board of trustees, elected by the members of the police department, fire department, and City council (one member appointed by each). This pension fund is reported as a fiduciary fund in the accompanying financial statements.

The pension plan provides pension benefits, deferred allowances, and death and disability benefits. A member may retire after reaching the age of 60 or accumulating 26 years of service. Benefits vest after 10 years of service. Employees, who retire at or after age 60 with 10 or more years of service, are entitled to pension payments for the remainder of their lives, in annual amounts equal to 65% of their highest three consecutive years average compensation.

Pension provisions include deferred allowances whereby an employee may terminate his or her employment with the City after accumulating 20 years of service. If the employee does not withdraw their accumulated contributions, the employee will be entitled to an annual pension, which will be reduced by 2.5% for each year of service less than 26.

Pension provisions include death and disability benefits whereby the disabled employee or a surviving spouse will be entitled to receive the full annual normal retirement amount. The disabled employee is entitled to receive disability payments for life, while a surviving spouse may receive death benefits for life, provided the spouse does not remarry.

Funding Policy

The pension plan, which covered all police and fire department personnel prior to 1987, was closed to new hires in 1988. In connection with the 1988 agreement to close this plan, all police and fire personnel hired after January 1, 1980 are members of the Michigan Municipal Employees Retirement System (MMERS). In 1989, the Pension Board and the receiver reached an agreement, which provides that the City will contribute \$1,100,000 annually to the plan until the plan's actuarial liability is liquidated. This contribution is funded by a judgement levy and is payable annually on March 15. If additional funds are required, payment will be made from general governmental funds.

**CITY OF ECORSE, MICHIGAN**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2006**

**NOTE 8 - PENSION PLANS (CONTINUED)**

Annual Pension Cost

For the year ended June 30, 2006, the City contributed \$1,100,000 to the plan. Significant actuarial assumptions, used for the year ended June 30, 2006, are as follows:

- Mortality – 1983 Group annuity mortality tables
- Withdrawal from service – None assumed
- Disability – None assumed
- Investment returns – Active and retired lives – 8%
- Salary scale – Salaries assumed to increase each year by 4%, compounded annually
- Retirement Age – For funding, age 50 and 25 years of service
- Valuation method – Projected unit credit method

	Actuarial Valuation as of June 30,		
	2006	2005	2004
Market value of plan assets	\$ 74,510	\$9,101,164	\$8,735,330
Present value of plan liabilities	NA	10,552,750	10,966,704
Unfunded pension benefits	NA	\$1,451,586	\$2,231,374

Michigan Municipal Employee Retirement System (MMERS) – Multi-employer plan

Plan Description

The City is a participant in MMERS to provide retirement benefits to its current and former employees. MMERS was established in 1945 and is organized pursuant to the provisions of Act 427 of the Public Acts of 1984, as amended by 1996 Public Act 220, of the state of Michigan. MMERS is a defined benefit plan provided through an agent multiple-employer public employee retirement system, and covers substantially all City employees. The City joined MMERS in 1980.

**CITY OF ECORSE, MICHIGAN**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2006**

**NOTE 8 - PENSION PLANS (CONTINUED)**

During the third fiscal quarter 2006, nearly all of the amounts (approximately \$ 9.53M) in the Police and Fire Pension plan (except for \$74,510 estimated for remaining administrative expenses) were transferred into MMERS. The amounts transferred have been identified as a separate Bargaining Unit on the MMERS quarterly statements.

MMERS is controlled by the participating organizations and their covered employees, with ultimate control by the Michigan legislature. Benefits are established by state statute. The plan provided pension benefits, deferred allowances, and death and disability benefits to plan members and their beneficiaries. MMERS issues financial statements and required supplementary information for the retirement system. This publicly available report may be obtained by requesting a copy, in writing, from the system at 447 N. Canal Road, Lansing, MI 48917.

Funding policy

The obligation to make contributions and maintain participation in MMERS for its employees was established by negotiation with the City's competitive bargaining units. No contributions to the plan are required from the City's employees.

Annual pension cost

For the year ended June 30, 2006, the City's annual pension payments to MMERS of \$1,071,720 did meet the required estimated actuarial contribution of \$973,152. The annual required contribution was determined as part of an actuarial valuation at December 31, 2003, using the entry age normal cost method. Significant actuarial assumptions included a) 8% investment rate of return, b) projected salary increases of 4.5% per year, c) assumed rates of withdrawal applied, are based upon years of service for members with less than 5 years of service, and are based upon age for members with over 5 years of service, and d) an inflation component of 4.5% is assumed.

The actuarial value of assets is determined on the basis of a valuation method that assumes the fund earns the expected rate of return (8%), and includes an adjustment to reflect market value. Unfunded actuarial accrued liabilities are amortized by a level percentage of payroll contributions over a period ranging from 30 to 36 years.



**CITY OF ECORSE, MICHIGAN**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2006**

**NOTE 8 - PENSION PLANS (CONTINUED)**

Three year trend information follows:

	<u>Fiscal years ended June 30,</u>		
	<u>2006</u>	<u>2005</u>	<u>2004</u>
Required Annual Pension Contribution	\$1,071,720	\$976,109	\$766,642
Percentage contributed	110%	94%	97%

Deferred Compensation Plan

The City offers its employees a deferred compensation plan established in accordance with Internal Revenue Code Section 457. The plan is available to all City employees and permits them to defer a portion of their salary until future years. Payments made to the plan are not available to employees until termination, retirement, death or unforeseen emergency. The city has no liability for losses under the plan agreement, but does have the duty of due care that would be required of an ordinary prudent investor.

**NOTE 9 - POST EMPLOYMENT HEALTHCARE BENEFITS**

In accordance with union contracts, healthcare benefits are paid for covered employees. The insurance premium cost of this benefit is paid 100% by the City. The City records the expense for this benefit at the time the premium is paid.

**NOTE 10 - RECEIVABLES FROM AND PAYABLES TO OTHER GOVERNMENTS**

The balance represents amounts due primarily from the State of Michigan and Wayne County for amounts collected by these entities which have not yet been received by the City of Ecorse. The receivable amounts total \$ 335,296 as of June 30, 2006. The payable balance represents amounts due primarily to the Wayne County EPA. The payable amounts total \$ 897,672 as of June 30, 2006.

**CITY OF ECORSE, MICHIGAN**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2006**

**NOTE 11 - CONTINGENCIES**

The City is a defendant in several lawsuits and asserted claims. A provision of \$1,605,000 has been made in the General Long-term Debt Account Group for the estimated liability for certain of these lawsuits. Management and legal counsel believe the City's ultimate exposure has been made in the accompanying financial statements for potential liabilities, if any, which may arise from these remaining suits and asserted claims.

**NOTE 12 - GOING CONCERN / MANAGEMENT'S PLANS**

As a result of recurring operating deficits and a significant unreserved, undesignated fund deficit in the General Fund, the City has started to prepare a formal deficit reduction plan which plans to submit to the State of Michigan department of Treasury in September 2007. Significant issues of the plan are discussed below.

During the current year, the City had General Fund expenditures in excess of revenues of \$5,190,401. As a result, the current year General Fund net assets are a negative \$3,952,508. Also, when combined with the current year business-type activities increase in net assets of \$679,068, the combined government wide primary government excess of expenditures over revenues and decrease in net assets was \$5,504,937. Management expects the situation to continue through the year ending June 30, 2007.

Management is currently working on a deficit elimination plan which addresses the matters that have brought about the City's going concern issue. Management is currently implementing cost cutting and revenue generating steps that include better management and lowering of lawsuit costs by implementing better training of public safety personnel, consideration of combining public safety services with neighboring cities, outsourcing some of its contracted services for public works, attempting to sell Mill Street land to developers to generate currently untapped cash flow and potentially attract new potential businesses and residents to the City, looking into combining job skills and cross training personnel in order to lower overall payroll costs, considering health care insurance expense sharing with employees, and seeking better collection of unpaid business licenses.

Management believes the cost cutting and revenue generating steps to date and additional cost reductions as mentioned above should result in the elimination of the General Fund deficit over the next several years.

## **REQUIRED SUPPLEMENTARY INFORMATION**

### **Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual**

#### **Special Revenue and Debt Service Funds**

##### **Non-major Governmental Funds**

##### **Special Revenue Funds**

**Major Streets Fund** – This fund is used to account for monies received from the State of Michigan under Act 51 (state gasoline tax revenues), and is used for the maintenance of designated streets within the City.

**Local Streets Fund** – This fund also accounts for Act 51 monies received, and is used for all city streets, not designated as major.

**Drug Enforcement Fund** – This fund is used to hold monies received from the forfeiture and confiscation of funds seized by the police department in enforcing drug statutes. Use of these funds is restricted to specified uses by the police department.

**Library Fund** – This fund is used to account for the revenues received and expenses incurred for the operation of the public library.

**Community Development Block Grant Fund** – This fund is used to account for the revenues and expenditures of funds received through the community development block grant.

##### **Debt Service Funds**

**Fiscal Stabilization Bond Fund** – This fund is used to account for monies to be applied to retire the fiscal stabilization bonds.

**CITY OF ECORSE, MICHIGAN**  
**COMBINING BALANCE SHEET - NON-MAJOR GOVERNMENTAL FUNDS**  
**JUNE 30, 2006**

	Special Revenue Funds						Debt Service	
	Major Street Fund	Local Street Fund	Drug Enforcement Fund	Justice Training Fund	Library Fund	Community Development Block Grant Fund	Special Revenue Funds Totals	Fiscal Stabilization Bond Fund
<b>Assets</b>								
Cash	\$ 43,180	\$ (1,625)	\$ 58,263	\$ 2,275	\$ (72,193)	\$ 101,915	\$ 131,815	\$ 196,872
Due from other governments	73,243	27,222	-	-	-	34,379	134,844	-
Bond issuance costs, net	-	-	-	-	-	-	-	136,707
Inter-fund balances	361,163	280,459	2,105	-	62,396	-	706,123	-
<b>Total assets</b>	<b>\$ 477,586</b>	<b>\$ 306,056</b>	<b>\$ 60,368</b>	<b>\$ 2,275</b>	<b>\$ (9,797)</b>	<b>\$ 136,294</b>	<b>\$ 972,782</b>	<b>\$ 333,579</b>
<b>Liabilities</b>								
Accounts payable	\$ -	\$ -	\$ -	\$ -	\$ 54,336	\$ -	\$ 54,336	\$ -
Accrued interest	-	-	-	-	-	-	-	36,304
Accrued salaries	-	-	-	-	-	-	-	-
Inter-fund balances	347,849	278,903	325	-	47,834	9,595	684,506	-
<b>Total liabilities</b>	<b>347,849</b>	<b>278,903</b>	<b>325</b>	<b>-</b>	<b>102,170</b>	<b>9,595</b>	<b>738,842</b>	<b>36,304</b>
<b>Fund Balances</b>								
Reserved for debt service	-	-	-	-	-	-	-	297,275
Unreserved	129,737	27,153	60,043	2,275	(111,967)	126,699	233,940	-
<b>Total liabilities and fund balances</b>	<b>\$ 477,586</b>	<b>\$ 306,056</b>	<b>\$ 60,368</b>	<b>\$ 2,275</b>	<b>\$ (9,797)</b>	<b>\$ 136,294</b>	<b>\$ 972,782</b>	<b>\$ 333,579</b>
								<b>\$ 1,306,361</b>

**CITY OF ECORSE, MICHIGAN**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
**NON-MAJOR GOVERNMENTAL FUNDS**  
**YEAR ENDED JUNE 30, 2006**

	Special Revenue					Debt Service			
	Major Street Fund	Local Street Fund	Drug Enforcement Fund	Justice Training Fund	Library Fund	Community Development Block Grant Fund	Special Revenue Funds Totals	Fiscal Stabilization Bond Fund	Totals
Revenues									
Property taxes	\$ -	\$ -	\$ -	\$ -	\$ 62,396	\$ -	\$ 62,396	\$ -	\$ 62,396
State shared revenue	443,574	164,863	-	-	-	-	608,437	-	608,437
Grants	-	-	-	-	-	177,747	177,747	-	177,747
Fines and forfeits	-	-	17,569	-	-	-	17,569	-	17,569
Miscellaneous	-	-	-	-	-	3,500	3,500	-	3,500
Interest	3,923	1,458	1,881	-	-	-	7,262	6,617	13,879
Total revenues	447,497	166,321	19,450	-	62,396	181,247	876,911	6,617	883,528
Expenditures									
Public safety	-	-	12,451	-	-	-	12,451	-	12,451
Public works	179,466	243,556	-	-	-	149,126	572,148	-	572,148
Capital outlays	-	-	-	-	-	-	-	-	-
Recreational/ cultural	-	-	-	-	151,758	-	151,758	-	151,758
Debt service	-	-	-	-	-	-	-	229,272	229,272
Total expenditures	179,466	243,556	12,451	-	151,758	149,126	736,357	229,272	965,629
Revenues over (under) expenditures	268,031	(77,235)	6,999	-	(89,362)	32,121	140,554	(222,655)	(82,101)
Other financing sources (uses):									
Principal paid on fiscal stabilization bond	-	-	-	-	-	-	-	(230,000)	(230,000)
Transfers from Major Street fund to Local Street fund - net	(110,893)	110,893	-	-	-	-	-	-	-
Transfers to Water fund	-	-	-	-	-	-	-	-	-
Transfers to General fund for administration	(44,357)	(16,487)	-	-	-	-	(60,844)	-	(60,844)
Transfers (to) from General fund - net	-	-	-	-	-	-	-	447,530	447,530
Total other financing sources (uses)	(155,250)	94,406	-	-	-	-	(60,844)	217,530	156,686
Excess (deficiency) of revenues over expenditures and other financing sources (uses)	112,781	17,171	6,999	-	(89,362)	32,121	79,710	(5,125)	74,585
Fund Balances, July 1, 2005	16,956	9,982	53,044	2,275	(22,605)	94,578	154,230	302,400	456,630
Fund Balances, June 30, 2006	\$ 129,737	\$ 27,153	\$ 60,043	\$ 2,275	\$ (111,967)	\$ 126,699	\$ 233,940	\$ 297,275	\$ 531,215

CITY OF ECORSE, MICHIGAN  
SPECIAL REVENUE FUND - MAJOR STREETS FUND  
BUDGETED AND ACTUAL REVENUES AND EXPENDITURES  
AND CHANGES IN FUND BALANCE  
YEAR ENDED JUNE 30, 2006  
WITH COMPARATIVE ACTUAL TOTALS FOR 2005

	2006		Budget	2005
	Budgeted	Actual	Variance	Actual
	Amounts	GAAP	Positive	GAAP
	Original and Final	Basis	(Negative)	Basis
Revenues:				
State-shared revenue	\$ 350,000	\$ 443,574	\$ 93,574	\$ 448,963
Interest	5,000	3,923	(1,077)	-
Total revenues	355,000	447,497	92,496	448,963
Expenditure:				
Construction - Roads	15,000	-	15,000	-
Capital Outlays - Roads	-	-	-	851,089
Maintenance:				
Contracted services	165,000	122,771	42,229	178,362
Routine maintenance	45,000	-	45,000	9,711
Traffic services	22,000	34,179	(12,179)	9,492
Winter maintenance	45,000	3,130	41,870	34,889
Administration & professional fees	45,000	19,386	25,614	-
Total expenditures	337,000	179,466	157,534	1,083,543
Excess revenues over expenditures	18,000	268,031	250,030	(634,580)
Other financing uses:				
Transfers to Local Street Fund	-	110,893	(110,893)	112,241
Transfers to General Fund - Administration	-	44,357	(44,357)	44,896
Total other financing uses	-	155,250	(155,250)	157,137
Excess (deficiency) of revenues over expenditures and other financing uses	18,000	112,781	94,780	(791,717)
Fund balance, beginning of year	717,284	16,956	(700,328)	808,673
Fund balance, end of year	\$ 735,284	\$ 129,737	\$ (605,548)	\$ 16,956

**CITY OF ECORSE, MICHIGAN**  
**SPECIAL REVENUE FUND - LOCAL STREETS FUND**  
**BUDGETED AND ACTUAL REVENUES AND EXPENDITURES**  
**AND CHANGES IN FUND BALANCE**  
**YEAR ENDED JUNE 30, 2006**  
**WITH COMPARATIVE ACTUAL TOTALS FOR 2005**

	2006		Budget	2005
	Budgeted	Actual	Variance	Actual
	Amounts	GAAP	Positive	GAAP
	Original and Final	Basis	(Negative)	Basis
Revenues:				
State-shared revenue	\$ 160,000	\$ 164,863	\$ 4,863	\$ 166,859
Interest	2,000	1,458	(542)	-
Total revenues	162,000	166,321	4,321	166,859
Expenditure:				
Construction - Professional services	30,000	19,189	10,811	24,417
Capital Outlays - Roads	-	-	-	375,290
Maintenance:				
Contracted services	7,000	86,403	(79,403)	40,982
Routine maintenance	45,000	84,250	(39,250)	73,601
Traffic services	6,000	7,157	(1,157)	7,080
Winter maintenance	65,000	34,506	30,494	52,541
Alley maintenance	22,000	-	22,000	5,556
Equipment rental administration	15,000	12,050	2,950	-
Total expenditures	190,000	243,556	(53,556)	579,467
Excess revenues over expenditures	(28,000)	(77,235)	(49,235)	(412,608)
Other financing uses:				
Transfers to from Water Fund	-	-	-	3,351
Transfers to Major Street Fund	-	110,893	110,893	112,241
Transfers to from General Fund - Administration	30,000	(16,487)	(46,487)	(16,686)
Total other financing uses	30,000	94,406	64,406	98,906
Excess (deficiency) of revenues over expenditures and other financing (uses)	2,000	17,171	15,171	(313,702)
Fund balance, beginning of year	52,061	9,982	(42,079)	323,684
Fund balance, end of year	\$ 54,061	\$ 27,153	\$ (26,908)	\$ 9,982

**CITY OF ECORSE, MICHIGAN**  
**SPECIAL REVENUE FUND - DRUG ENFORCEMENT FUND**  
**BUDGETED AND ACTUAL REVENUES AND EXPENDITURES**  
**AND CHANGES IN FUND BALANCE**  
**YEAR ENDED JUNE 30, 2006**  
**WITH COMPARATIVE ACTUAL TOTALS FOR 2005**

	<u>2006</u>		Budget	2005
	Budgeted	Actual	Variance	Actual
	Amounts	GAAP	Positive	GAAP
	<u>Original and Final</u>	<u>Basis</u>	<u>(Negative)</u>	<u>Basis</u>
Revenues:				
Fines and forfeits	\$ 50,000	\$ 17,569	\$ (32,431)	\$ 51,947
Interest	<u>-</u>	<u>1,881</u>	<u>1,881</u>	<u>130</u>
Total revenues	<u>50,000</u>	<u>19,450</u>	<u>(30,549)</u>	<u>52,077</u>
Expenditure:				
Police operating expenses	50,000	12,451	(37,549)	4,752
Capital equipment purchases	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total expenditures	<u>50,000</u>	<u>12,451</u>	<u>(37,549)</u>	<u>4,752</u>
Excess revenues over expenditures	<u>-</u>	<u>6,999</u>	<u>7,000</u>	<u>47,325</u>
Other financing uses:				
Transfers to from General Fund	<u>-</u>	<u>-</u>	<u>-</u>	<u>6,844</u>
Total other financing uses	<u>-</u>	<u>-</u>	<u>-</u>	<u>6,844</u>
Excess (deficiency) of revenues over expenditures and other financing (uses)	-	6,999	7,000	54,169
Fund balance, beginning of year	<u>70,119</u>	<u>53,044</u>	<u>(17,075)</u>	<u>(1,125)</u>
Fund balance, end of year	<u>\$ 70,119</u>	<u>\$ 60,043</u>	<u>\$ (10,075)</u>	<u>\$ 53,044</u>



**CITY OF ECORSE, MICHIGAN**  
**SPECIAL REVENUE FUND - JUSTICE TRAINING FUND**  
**BUDGETED AND ACTUAL REVENUES AND EXPENDITURES**  
**AND CHANGES IN FUND BALANCE**  
**YEAR ENDED JUNE 30, 2006**  
**WITH COMPARATIVE ACTUAL TOTALS FOR 2005**

	<u>2006</u>		Budget Variance	2005
	Budgeted Amounts	Actual GAAP	Positive	Actual
	<u>Original and Final</u>	<u>Basis</u>	<u>(Negative)</u>	<u>GAAP</u>
				<u>Basis</u>
Revenues:				
Grants	\$ -	\$ -	\$ -	\$ 3,275
Grants	-	-	-	-
Total revenues	-	-	-	3,275
Expenditure:				
	-	-	-	-
Justice Training	-	-	-	1,000
Total expenditures	-	-	-	1,000
Excess revenues over expenditures	-	-	-	2,275
Other financing uses:				
Transfers to from General Fund	-	-	-	-
Total other financing uses	-	-	-	-
Excess of revenues over over expenditures	-	-	-	2,275
Fund balance, beginning of year	-	2,275	2,275	-
Fund balance, end of year	<u>\$ -</u>	<u>\$ 2,275</u>	<u>\$ 2,275</u>	<u>\$ 2,275</u>

**CITY OF ECORSE, MICHIGAN**  
**SPECIAL REVENUE FUND - LIBRARY FUND**  
**BUDGETED AND ACTUAL REVENUES AND EXPENDITURES**  
**AND CHANGES IN FUND BALANCE**  
**YEAR ENDED JUNE 30, 2006**  
**WITH COMPARATIVE ACTUAL TOTALS FOR 2005**

	2006		Budget	2005
	Budgeted	Actual	Variance	Actual
	Amounts	GAAP	Positive	GAAP
	Original and Final	Basis	(Negative)	Basis
Revenues:				
Property taxes	\$ 145,000	\$ 62,396	\$ (82,604)	\$ 147,578
Contributions	6,800	-	(6,800)	-
Total revenues	151,800	62,396	(89,404)	147,578
Expenditure:				
Salaries and payroll taxes	13,800	24,653	(10,853)	17,339
Wayne County library network	130,000	117,181	12,819	139,342
Supplies and professional services	5,000	5,145	(145)	-
Building maintenance	3,000	4,780	(1,780)	16,213
Total expenditures	151,800	151,758	42	172,894
Excess revenues over expenditures	-	(89,362)	(89,362)	(25,316)
Other financing uses:				
Transfers to from General Fund	-	-	-	14,459
Total other financing uses	-	-	-	14,459
Excess (deficiency) of revenues over expenditures and other financing (uses)	-	(89,362)	(89,362)	(10,857)
Fund balance, beginning of year	-	(22,605)	(22,605)	(11,748)
Fund balance, end of year	\$ -	\$ (111,967)	\$ (111,967)	\$ (22,605)

**CITY OF ECORSE, MICHIGAN**  
**SPECIAL REVENUE FUND - COMMUNITY DEVELOPMENT BLOCK GRANT FUND**  
**BUDGETED AND ACTUAL REVENUES AND EXPENDITURES**  
**AND CHANGES IN FUND BALANCE**  
**YEAR ENDED JUNE 30, 2006**  
**WITH COMPARATIVE ACTUAL TOTALS FOR 2005**

	2006		Budget	2005
	Budgeted	Actual	Variance	Actual
	Amounts	GAAP	Positive	GAAP
	Original and Final	Basis	(Negative)	Basis
Revenues:				
Federal grants	\$ 221,000	\$ 177,747	\$ (43,253)	\$ 135,795
Program income	-	3,500	3,500	-
Total revenues	221,000	181,247	(39,753)	135,795
Expenditure:				
Parks and playgrounds	198,900	-	198,900	-
Street improvements	-	-	-	-
Consultant & professional fees	-	9,595	(9,595)	3,675
Housing rehabilitation	-	67,644	(67,644)	29,512
Building demolition	-	51,198	(51,198)	75,235
Building improvements	-	16,700	(16,700)	-
Salaries and Miscellaneous	-	3,989	(3,989)	132
Total expenditures	198,900	149,126	49,774	108,554
Excess revenues over expenditures	22,100	32,121	10,021	27,241
Other financing uses:				
Transfers to from Water Fund	-	-	-	(11,620)
Transfers to from General Fund - Administration	22,100	-	(22,100)	-
Total other financing uses	22,100	-	(22,100)	(11,620)
Excess (deficiency) of revenues over expenditures and other financing (uses)	-	32,121	32,121	38,861
Fund balance, beginning of year	7,914	94,578	86,664	55,717
Fund balance, end of year	\$ 7,914	\$ 126,699	\$ 118,785	\$ 94,578

**CITY OF ECORSE, MICHIGAN**  
**DEBT SERVICE FUND - FISCAL STABILIZATION BOND FUND**  
**BUDGETED AND ACTUAL REVENUES AND EXPENDITURES**  
**AND CHANGES IN FUND BALANCE**  
**YEAR ENDED JUNE 30, 2006**

	2006		Budget Variance Positive (Negative)
	Budgeted Amounts Original and Final *	Actual GAAP Basis	
Revenues:			
Interest	\$ -	\$ 6,617	\$ 6,617
Total revenues	-	6,617	6,617
Expenditure:			
Interest expense	-	219,356	(219,356)
Amortization of bond issue costs	-	8,916	(8,916)
Trustee fees	-	1,000	(1,000)
Total expenditures	-	229,272	(229,272)
Excess revenues over expenditures	-	(222,655)	(222,655)
Other Financing Uses:			
Principal paid on fiscal stabilization bond	-	(230,000)	(230,000)
Transfers from General Fund - net	-	447,530	447,530
Total other financing uses	-	217,530	217,530
Excess (deficiency) of revenues over expenditures and other financing uses		(5,125)	(5,125)
Fund balance, beginning of year	-	302,400	302,400
Fund balance, end of year	\$ -	\$ 297,275	\$ 297,275

\* No budget for this fund was adopted

**CITY OF ECORSE, MICHIGAN**  
**COMBINING STATEMENT OF NET ASSETS - FIDUCIARY FUNDS**  
**JUNE 30, 2006**

	Police and Fire Pension Trust	Current Tax Collection Fund	Fire Insurance Escrow Fund	District Court Trust Fund	Totals
<b>Assets:</b>					
Cash	\$ -	\$ 107,580	\$ 43,643	\$ 137,511	\$ 288,734
Short Term Investments	74,510	-	-	-	-
Deposits	-	-	2,500	-	2,500
Due from other governmental units		766,828			766,828
Due from other funds, net	-	3,928,579	15,179	-	3,943,758
<b>Total Assets</b>	<b>\$ 74,510</b>	<b>\$ 4,802,987</b>	<b>\$ 61,322</b>	<b>\$ 137,511</b>	<b>\$ 5,001,820</b>
<b>Liabilities:</b>					
Due to other governmental units		\$ 1,480,108	-	\$ 18,319	\$ 1,498,427
Due to other funds, net		3,322,879		48,246	3,371,125
Refundable court bonds		-	-	58,121	58,121
Deposits		-	61,322	-	61,322
Other liabilities		-	-	12,825	12,825
<b>Total Liabilities</b>		<b>4,802,987</b>	<b>61,322</b>	<b>137,511</b>	<b>5,001,820</b>
<b>Net Assets:</b>					
Reserved for pension benefits	\$ 74,510				

**CITY OF ECORSE, MICHIGAN  
STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCE - GENERAL FUND  
BUDGET TO ACTUAL  
YEAR ENDED JUNE 30, 2006  
WITH COMPARATIVE ACTUAL TOTALS FOR 2005**

	2006			2005
	Budgeted Amounts Original and Final	Actual GAAP Basis	Budget Variance Positive (Negative)	Actual GAAP Basis
Revenues:				
Property taxes	\$ 8,957,195	\$ 6,897,839	\$ (2,059,356)	\$ 8,281,462
State shared revenues	1,900,000	1,886,437	(13,563)	1,921,356
Grants	75,000	29,205	(45,795)	137,184
Licenses and permits	288,600	271,599	(17,001)	269,502
Fees and charges	1,180,000	908,164	(271,836)	1,027,055
Other revenues	536,225	403,999	(132,226)	188,614
Interest income	100,000	157,507	57,507	41,813
Total revenues	<u>13,037,020</u>	<u>10,554,750</u>	<u>(2,482,270)</u>	<u>11,866,986</u>
Expenditure:				
General government & Legislative	5,671,985	6,216,758	(544,773)	5,849,667
Judicial	455,225	469,183	(13,958)	455,534
Public safety	4,828,655	5,809,434	(980,779)	5,457,597
Public works	1,559,000	1,414,249	144,751	1,230,911
Recreational/cultural	191,750	185,136	6,614	191,124
Capital outlays	5,000	317,177	(312,177)	1,493,999
Total expenditures	<u>12,711,615</u>	<u>14,411,937</u>	<u>(1,700,322)</u>	<u>14,678,832</u>
Excess revenues over expenditures	325,405	(3,857,187)	(4,182,592)	(2,811,846)
Other financing sources (uses)				
Charter Police/Fire pension judgment	(1,100,000)	(1,100,000)	-	(1,100,000)
Stabilization loan	-	-	-	-
Transfers to debt service fund	(450,000)	(447,530)	2,470	(453,256)
Transfers in (out) for administration	-	60,844	60,844	61,582
Transfers in for administration from proprietary fund	-	153,472	153,472	149,133
Transfers in (out) special revenue funds	-	-	-	(21,303)
Total other financing sources (uses)	<u>(1,550,000)</u>	<u>(1,333,214)</u>	<u>216,786</u>	<u>(1,363,844)</u>
Revenues over (under) expenditures and financing sources (uses)	(1,224,595)	(5,190,401)	(3,965,806)	(4,175,690)
Fund balances, July 1, 2005	<u>1,237,893</u>	<u>1,237,893</u>	<u>-</u>	<u>5,413,583</u>
Fund balances, June 30, 2006	<u>\$ 13,298</u>	<u>\$ (3,952,508)</u>	<u>\$ (3,965,806)</u>	<u>\$ 1,237,893</u>

Budgeted amounts are prepared on a GAAP basis

**CITY OF ECORSE, MICHIGAN**  
**SCHEDULE OF REVENUES - BUDGET TO ACTUAL - GENERAL FUND**  
**YEAR ENDED JUNE 30, 2006**

	Budgeted Amounts Original and Final	Actual	Variance with Final Budget Positive (Negative)
Property Taxes:			
Property Tax Revenues	\$ 8,900,000	\$ 6,840,645	\$ (2,059,355)
Payment in Lieu of Taxes	57,195	57,194	(1)
Praxair IFT Payment	-	-	-
National Steel Tax Settlement	-	-	-
	<u>8,957,195</u>	<u>6,897,839</u>	<u>(2,059,356)</u>
Licenses and Permits:			
Cable TV Fees	89,300	78,823	(10,477)
Trailer Licenses	1,000	909	(92)
Various Business Licenses	32,000	31,864	(136)
Plumbing License Permit	40,000	27,114	(12,885)
Electric License Permit	25,000	31,582	6,583
Building Permits	100,000	99,522	(479)
Building Inspections	1,300	1,755	455
Miscellaneous Licenses & Donations	-	30	30
	<u>288,600</u>	<u>271,599</u>	<u>(17,000)</u>
State and Federal:			
Recourse Grant	-	20,750	20,750
COPS Grant	-	-	-
Detroit Area Agency on Aging and SMART Grants	75,000	8,455	(66,546)
State-Shared Revenue/Sales Tax	1,900,000	1,886,437	(13,563)
	<u>1,975,000</u>	<u>1,915,642</u>	<u>(59,359)</u>
Fees and Charges:			
Miscellaneous Fees	20,000	54,433	34,433
Resale of City Property	125,000	-	(125,000)
Towing Revenue	15,000	18,007	3,007
District Court Revenues	870,000	665,657	(204,343)
Ambulance Fees	150,000	170,067	20,067
	<u>1,180,000</u>	<u>908,164</u>	<u>(271,836)</u>
Other Revenue:			
Reimbursement for Judge's Salary	45,725	45,724	(1)
Interest Income	100,000	157,507	57,507
Rental Income - Ameritech	6,500	-	(6,500)
Workers' Compensation Rebate	-	23,728	23,728
Workers' Compensation Recovery	-	-	-
Miscellaneous Reimbursements	150,000	205,602	55,602
Other Revenues and Administrative Fees	325,000	121,373	(203,627)
Liquor Tax Reimbursements	9,000	7,572	(1,428)
	<u>636,225</u>	<u>561,506</u>	<u>(74,719)</u>
 TOTAL REVENUES	 <u>\$ 13,037,020</u>	 <u>\$ 10,554,750</u>	 <u>\$ (2,482,270)</u>

**CITY OF ECORSE, MICHIGAN**  
**SCHEDULE OF EXPENDITURES - BUDGET TO ACTUAL - GENERAL FUND**  
**YEAR ENDED JUNE 30, 2006**

	Budgeted Amounts Original and Final	Actual	Variance with Final Budget Positive (Negative)
Legislative:			
Salaries	\$ 65,000	\$ -	\$ 65,000
Salaries - Mayor and Council	100,000	214,011	(114,011)
FICA	7,650	11,611	(3,961)
Travel	500	-	500
Office Supplies	800	4,910	(4,110)
Miscellaneous	1,050	13,992	(12,942)
	<u>175,000</u>	<u>244,524</u>	<u>(69,524)</u>
Judicial:			
Salaries	242,225	248,831	(6,606)
FICA	15,000	15,368	(368)
Health Insurance	70,000	67,122	2,878
MERS Pension	86,500	102,313	(15,813)
Travel / Memberships	1,000	-	1,000
Office Supplies	12,000	14,021	(2,021)
Books and Subscriptions	2,500	99	2,401
Court Appointed Attorney	5,000	-	5,000
Contractual services/Probation & Fees	16,000	9,842	6,158
Computer Expense	2,500	-	2,500
Miscellaneous	2,500	11,587	(9,087)
	<u>455,225</u>	<u>469,183</u>	<u>(13,958)</u>
General Government:			
Elections:			
Supplies and Equipment	1,000	13,937	(12,937)
Contractual Workers	19,000	29,959	(10,959)
	<u>20,000</u>	<u>43,896</u>	<u>(23,896)</u>
Assessor:			
Salaries	48,000	40,322	7,678
Overtime	200	-	200
FICA	2,600	3,074	(474)
Health Insurance	6,400	5,280	1,120
MERS Pension	12,000	16,332	(4,332)
Office Supplies	3,000	648	2,352
Wayne County Admin.	40,000	31,991	8,009
	<u>112,200</u>	<u>97,646</u>	<u>14,554</u>
City Clerk:			
Salaries	71,000	114,813	(43,813)
Overtime	1,000	1,263	(263)
FICA	5,000	7,519	(2,519)
Health Insurance	15,000	32,473	(17,473)
MERS Pension	9,000	20,889	(11,889)



**CITY OF ECORSE, MICHIGAN**  
**SCHEDULE OF EXPENDITURES - BUDGET TO ACTUAL - GENERAL FUND**  
**YEAR ENDED JUNE 30, 2006**

	Budgeted Amounts Original and Final	Actual	Variance with Final Budget Positive (Negative)
Office Supplies	-	8,180	(8,180)
Postage	20,000	-	20,000
Miscellaneous	-	5,878	(5,878)
Department Supplies	7,500	-	7,500
	<u>128,500</u>	<u>191,016</u>	<u>(62,516)</u>
Controller:			
Salaries	220,000	247,707	(27,707)
FICA	18,000	17,620	380
Health Insurance	40,000	40,592	(592)
MERS Pension	30,000	34,245	(4,245)
Office Supplies & Payroll Fees Expense	8,000	12,018	(4,018)
Office Equipment	3,000	-	3,000
Contracted Services & Workshops	3,000	-	3,000
	<u>322,000</u>	<u>352,182</u>	<u>(30,182)</u>
Auditors:	<u>150,000</u>	<u>146,319</u>	<u>3,681</u>
Treasurer:			
Salaries	105,000	72,268	32,732
Overtime	2,000	36	1,964
FICA	7,500	5,469	2,031
Health Insurance	25,000	16,237	8,763
MERS Pension	24,300	26,773	(2,473)
Office Supplies	2,000	2,519	(519)
Office Equipment	4,085	-	4,085
Miscellaneous	-	1,537	(1,537)
Consulting Services	2,000	-	2,000
	<u>171,885</u>	<u>124,839</u>	<u>47,046</u>
General Government:			
Long-term Disability	13,500	2,738	10,762
MERS Pension	-	-	-
Health Insurance	-	19,883	(19,883)
Unemployment Compensation	11,600	59,069	(47,469)
Workers Compensation	115,500	115,409	91
Office Supplies	-	10,293	(10,293)
Postage	7,500	21,508	(14,008)
Downriver Mutual Aid	10,000	-	10,000
Michigan Municipal League	8,000	8,594	(594)
Community Project on Aging	-	1,796	(1,796)
City Attorney & Other Attorney Fees	750,000	1,424,896	(674,896)
Arbitration and Lawsuit Settlements	250,000	93,156	156,844
Cellular Phones / Pagers	-	16,537	(16,537)
Consultants Fees	50,000	14,120	35,880
Physicals: All Departments	2,000	3,200	(1,200)
Retirees Health Insurance	1,500,000	1,511,238	(11,238)
Retirees Death Benefits	10,000	65,000	(55,000)

**CITY OF ECORSE, MICHIGAN**  
**SCHEDULE OF EXPENDITURES - BUDGET TO ACTUAL - GENERAL FUND**  
**YEAR ENDED JUNE 30, 2006**

	Budgeted Amounts Original and Final	Actual	Variance with Final Budget Positive (Negative)
Garbage Disposal	300,000	13,553	286,447
Riverview Dumping	120,000	163,956	(43,956)
Telephone	45,000	60,731	(15,731)
Water Festival and July 4th Celebration	12,000	34,612	(22,612)
General Liability Insurance	450,000	461,948	(11,948)
Newspaper Ads	15,000	21,044	(6,044)
Emergency Preparedness	-	-	-
Lighting: Streets	400,000	309,940	90,060
Lighting: Facilities	150,000	158,138	(8,138)
Gas Utilities	25,000	52,298	(27,298)
Office Machine Maintenance	3,800	674	3,126
All Building Maintenance	220,000	157,210	62,790
Computer Expenses	40,000	48,780	(8,780)
Office Supplies & Copy Paper	16,000	-	16,000
Equipment Rental	-	19,239	(19,239)
Training	-	225	(225)
Building Improvements	40,000	-	40,000
Miscellaneous	27,500	146,550	(119,050)
	<u>4,592,400</u>	<u>5,016,336</u>	<u>(423,936)</u>
Total General Government	<u>5,496,985</u>	<u>5,972,234</u>	<u>(475,249)</u>
Public Safety:			
Police Department:			
Salaries	1,740,000	1,516,019	223,981
Part Time Salaries	-	92,491	(92,491)
Overtime	225,000	271,313	(46,313)
FICA	28,130	39,998	(11,868)
Health Insurance	220,000	405,919	(185,919)
Workers Compensation	50,000	-	50,000
MERS Pension	320,000	512,790	(192,790)
Office Supplies	10,000	21,466	(11,466)
Ammunition	700	-	700
Prisioners' Meals and Holding	100,000	52,014	47,986
Downriver Mutual Aid	8,000	7,466	534
Police Training (Act 302)	10,000	191,068	(181,068)
Vehicle Expense: Repairs & Maintenance	29,000	110,536	(81,536)
Vehicle Expense: Gas, Oil, and Lube	35,000	19,457	15,543
Radio Maintenance	2,000	2,097	(97)
Dogcatcher expense	2,000	-	2,000
Miscellaneous	9,000	65,831	(56,831)
	<u>2,788,830</u>	<u>3,308,465</u>	<u>(519,635)</u>
Fire Department:			
Salaries	1,250,000	1,055,055	194,945
Part Time Salaries	-	209,305	(209,305)
Overtime	135,000	151,571	(16,571)

**CITY OF ECORSE, MICHIGAN**  
**SCHEDULE OF EXPENDITURES - BUDGET TO ACTUAL - GENERAL FUND**  
**YEAR ENDED JUNE 30, 2006**

	Budgeted Amounts Original and Final	Actual	Variance with Final Budget Positive (Negative)
FICA	17,150	186,723	(169,573)
Health Insurance	125,000	407,000	(282,000)
Workers Compensation	35,000	-	35,000
MERS Pension	160,425	-	160,425
Office Supplies	2,500	-	2,500
Departmental Supplies	16,500	-	16,500
Laundry	2,000	2,139	(139)
Training	4,000	19,809	(15,809)
Various Maintenance	3,000	907	2,093
Ambulance	-	1,055,055	(1,055,055)
Vehicle Expense: Repairs & Maintenance	15,000	3,326	11,674
Vehicle Expense: Gas, Oil, and Lube	8,400	59,040	(50,640)
Sundry & Other	7,000	-	7,000
	<u>1,780,975</u>	<u>2,047,527</u>	<u>(266,552)</u>
Building, Engineering and Inspections:			
Salaries	56,500	64,261	(7,761)
Overtime	500	-	500
FICA	4,850	4,680	170
Health Insurance	17,000	24,355	(7,355)
MERS Pension	23,000	27,557	(4,557)
Office Supplies	2,000	5,055	(3,055)
Inspector's Fees	90,000	112,105	(22,105)
Professional/ Contractual Service	60,000	154,195	(94,195)
Demolition - Building and Board Up	-	30,350	(30,350)
Miscellaneous	5,000	30,886	(25,886)
	<u>258,850</u>	<u>453,444</u>	<u>(194,594)</u>
Subtotal Public Safety	<u>4,828,655</u>	<u>5,809,434</u>	<u>(980,779)</u>
Capital Outlay-Equipment-General	-	97,258	(97,258)
Capital Outlay-Equipment-Police	5,000	-	5,000
Capital Outlay-Equipment-Fire	-	135,932	(135,932)
Capital Outlay-Equipment-Public Works	-	70,000	(70,000)
Capital Outlay-Equipment-Building, Improvements, Parks, Engineering, Etc.	-	13,987	(13,987)
	<u>5,000</u>	<u>317,177</u>	<u>(312,177)</u>
Public Works:			
Salaries	261,000	156,406	104,594
FICA	5,000	11,631	(6,631)
Health Insurance	15,000	13,523	1,477
MERS Pension	28,000	29,633	(1,633)
Office Supplies	-	2,231	(2,231)
Contracted Service: General Labor	550,000	838,858	(288,858)
Contracted Service: Waste Removal	-	38,950	(38,950)
Contracted Service: Park Maintenance	30,000	44,729	(14,729)
Contracted Service: Sidewalk & Alley Maint.	-	47,006	(47,006)
Contracted Service: Rubbish Removal	450,000	4,690	445,310

**CITY OF ECORSE, MICHIGAN**  
**SCHEDULE OF EXPENDITURES - BUDGET TO ACTUAL - GENERAL FUND**  
**YEAR ENDED JUNE 30, 2006**

	Budgeted Amounts Original and Final	Actual	Variance with Final Budget Positive (Negative)
Vehicle Repairs and Maintenance	20,000	166,884	(146,884)
New Equipment	200,000	-	200,000
Contracted Service: Miscellaneous	-	59,707	(59,707)
	<u>1,559,000</u>	<u>1,414,248</u>	<u>144,752</u>
Senior Citizens			
Salaries	45,000	54,720	(9,720)
FICA	3,000	3,123	(123)
Computer Expense	15,000	-	15,000
Senior Citizens Expense	6,000	132	5,868
Vehicle Repairs and Maintenance	25,000	47,759	(22,759)
	<u>94,000</u>	<u>105,734</u>	<u>(11,734)</u>
Recreation:			
Planning Director's Salary	12,000	33,010	(21,010)
Staff Salaries	61,000	26,839	34,161
FICA	300	3,897	(3,597)
MERS Pension	-	7,390	(7,390)
Recreation Expense	24,450	8,266	16,184
	<u>97,750</u>	<u>79,402</u>	<u>18,348</u>
 TOTAL EXPENDITURES	 <u>\$ 12,711,615</u>	 <u>\$ 14,411,937</u>	 <u>\$ (1,700,322)</u>

**CITY OF ECORSE, MICHIGAN**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**SCHEDULE OF FUNDING PROGRESS - PENSION PLANS**

The following presents the funding progress for the City's pension plans:

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL)</u>	<u>Funded Ratio</u>	<u>Unfunded Actuarial Accrued Liability</u>	<u>Covered Payroll</u>	<u>Unfunded AAL as a Percentage of Covered Payroll</u>
Police and Fire Pension Trust:						
6/30/06	\$ 74,510	N/A	N/A	N/A	N/A	N/A
6/30/05	9,103,164	10,718,410	85%	1,615,246	81,678	1978%
6/30/04	8,735,330	10,966,704	80%	2,231,374	151,983	1468%
6/30/02	8,021,778	11,570,624	69%	3,548,846	266,489	1332%
6/30/01	8,891,850	11,525,815	77%	2,633,965	197,950	1331%

Michigan Municipal Employees Retirement System:

2005	\$ 24,450,427	\$ 44,000,000	56%	\$ 19,549,573	\$ 4,300,000	455%
2004	15,060,268	27,971,284	54%	12,911,016	2,894,691	446%
2003	14,938,096	27,428,911	54%	12,490,815	2,601,910	480%

# Wilkerson & Associate, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

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645 GRISWOLD, SUITE 1812  
DETROIT, MICHIGAN 48226  
313-967-0134 FAX 313-967-0138

LARRY WILKERSON, C.P.A.  
THOMAS E. WILKERSON, C.P.A.

August 29, 2007

Mayor and City Council  
City of Ecorse, Michigan

In planning and performing our audit of the governmental financial statements of the City of Ecorse for the year ended June 30, 2006, we considered the City's internal control in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on internal control.

However, during our audit, we noted certain matters involving the internal control and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant weaknesses in the design or operation of the internal control that, in our judgment, could adversely affect the City of Ecorse's ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial statements.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that errors or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of internal control would not necessarily disclose all matters in internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, we noted the following reportable conditions in this letter that we believe to be material weaknesses.

We have also included other general observations and comments which are not considered to be material weaknesses. We have also included numerous recommendations related to our comments included in this letter.

**Members: A.I.C.P.A. and M.A.C.P.A.**

This report is intended solely for the information and use of Mayor, City Council, and Management of the City of Ecorse, Michigan, and is not intended to be and should not be used by anyone other than these specified parties.

*Wilkerson & Associate PC*

Wilkerson & Associate. P.C.  
Certified Public Accountants

Enclosures

In auditing the financial statements for the year ended June 30, 2006, we encountered some of the same deficiencies as referred to in our management letters related to the audits for the years ended June 30, 2005 and June 30, 2004. Some of the following comments have also been noted in prior auditors management letters related to the audits for the years ended June 30, 2003 and 2002, and in some instances made reference by those prior auditors to these problems existing and noted in Management Comment letters issued for the 1999 to 2001 fiscal year audits.

### REPORTABLE CONDITIONS - SIGNIFICANT WEAKNESSES

- (1) All bank accounts were not reconciled in a timely manner during the year and had numerous instances of large journal entry adjustments which often appeared not to have proper detailed supporting documentation available. We recommend that the City of Ecorse reconcile all of their bank accounts timely and minimize or eliminate any large journal entries to reconcile its bank accounts. In some instances disbursements were not posted to the general ledger or posted incorrectly. Substantial audit effort was required in assessing these journal entries and what general ledger accounts were used to balance and/or offset the cash accounts.
- (2) Those responsible for receipting are also responsible for bank deposits, entering receipts to the computer system, and reconciling receipts with bank deposits. Strong internal controls require the segregation of key duties and responsibilities in order to reduce the risk of error or possible improprieties. At a minimum, the clerks should do the entering of the receipts and a review should be performed by the deputy treasurer. We recommend that the city treasurer's office take steps to segregate duties in relation to cash handling and bank deposit procedures.
- (3) We noted that during the audit year ended June 30, 2006, the City paid approximately one hundred sub-contractors (i.e. non-employee status) every two weeks. We noted that these subcontractors appeared to be working as employees under the supervision of various departments of the City of Ecorse. We noted that these workers filled out and submitted bi-weekly timesheets which detailed each day's hours worked within a bi-weekly period. We noted that at least eighty to ninety percent of these workers did not receive a W-2 or a 1099 at the end of the year from the City of Ecorse. Furthermore, we noted that the Accounts Payable department that processes checks for sub-contractors in the Controllers office often did not have adequate employee or sub-contractor personnel information including one or more of the following: (i.e. full names, complete addresses, social security numbers, completed W-9's, completed W-4's, copies of driver's licenses as applicable, etc.). We recommend that the City of Ecorse implement measures to properly



evaluate the appropriate status to be assigned to these workers (i.e. employee or sub-contractor) at the time of hire. We also recommend that the City of Ecorse require full documentation from all of these workers upon hire, i.e. completed employment application, contractor bid for services form (or equivalent), completed W-4, W-9, etc. Additionally, the City should prepare and mail out to all workers and sub-contractors either W-2's and/or 1099's (as appropriate).

- (4) During the year ended June 30, 2006 we noted that the component unit, Brownfield Redevelopment Authority books and records were not adequately updated during the year. The City appeared not to be able to readily identify all of the amounts transferred from the General Fund related to demolition and administrative costs. The accounting for the component unit was not maintained according to GAAP during the year. Large adjustments to revenue, expenses, and land costs had to be adjusted for to properly capture and treat the activity that occurred during the year. Also, it appears that not all costs designated by the City were properly considered and/or allocated to this component unit during the year. Also, for over half of the fiscal year, the component unit did not maintain its own bank account, even though it is a legally separate unit from the City of Ecorse. As a result, a significant amount of audit work was required to verify and test balances, obtain supporting documentation, and verify and/or reclassify transactions that appeared incorrectly recorded. We recommend that the City Ecorse Brownfield Redevelopment Authority address the above matters by maintaining a set of accounting records separate from those of the City of Ecorse and update those records timely and adequately throughout the year.
- (5) There were instances in which checks disbursed in excess of \$10,000 had only one individual's signature authorizing it, various instances in which no authorized signatures were on checks disbursed, and instances in which it appears that wire transfers were authorized by only one person. Correspondingly, instances were noted in which expenses did not appear to be properly authorized by individuals with their initials authorizing the purchase requisition or its equivalent. This situation can leave the city vulnerable to cash disbursement transactions which are not properly reviewed or authorized. Again, we recommend that the city take steps to more clearly define and regulate how and by whom cash disbursements may be authorized and made, and segregate duties where necessary. Furthermore, the city should periodically review its cancelled checks and disbursement documentation and meet with bank officials to ensure that the bank is clearly understanding and following all prescribed disbursement guidelines and procedures of the city.

- (6) There still exist weaknesses over imprest cash and/or cash handling procedures. The treasurer's office has three cash drawers and petty cash. The cash drawers were not always consistently or timely reconciled to the imprest cash balances. Checks were not always restrictively endorsed. Cash is not compared to receipts until the bank deposit is prepared at a later time or later date. Also, the police department had only one person with access to imprest cash and a log was not consistently maintained. Imprest cash was only reconciled when it needed to be replenished. Employees do not always collect immediately on their receipts and the receipt still gets stored in the petty cash drawer. Officers drop off receipts and are not reimbursed until they are able to come to the office during regular hours. Furthermore, while the fire department does have two individuals with access to imprest cash and a log is maintained, employees do not always collect immediately on their receipts and the receipt still gets stored in the petty cash drawer, and officers drop of receipts and are not reimbursed until they are able to come to the office during regular hours.
- (7) We noted that the water department did not have a system of controls in place to ensure the accuracy of transactions processed. The balance of accounts receivable is not reconciled with the general ledger. The difference between the water funds accounts receivable general ledger balance and the water fund accounts receivable trial balance report was a material unreconciled variance. We noted numerous differences existing between various customer accounts receivable water balances in the water accounts receivable trial balance ledger and the actual customer water balance due to the city. In addition, the water accounts receivable aging is not adequately adjusted to remove old accounts receivable that no longer exist or are valid, nor adequately adjust all existing accounts receivable aging balances. We recommend that the city thoroughly analyze the details of its aging reports and adjust and update them until they are accurate and are reconciled to the general ledger balance.
- (8) We noted that the Treasurer is the only person with a key to a cash drawer assigned to her and used on various occasion. During the review of the Treasurer's office processes we were not allowed to count cash on a specific day and time because the Treasurer was absent from the office. We recommend that an additional key be stored with a proper authority to ensure that future cash counts and surprise cash counts can be made without restrictions.

- (9) We noted that the Clerk was unable to or not willing to provide subsequent (to audit year end June 30, 2006) approved minutes of council meetings. It is noted that the Clerk did provide copies of the bi-weekly minutes prior to the request for the subsequent minutes. It is important to note that the approved subsequent minutes of council meetings are a very important part of the audit procedures, and subsequent minutes can reveal information vital to the audit and the financial statements. In addition, these items are public documents. We received no response after numerous attempts to obtain these minutes and were informed that perhaps the minutes were not available yet because they were still being put in adobe format. However, the minutes requested were from council meetings conducted over six months previously and to our understanding were already approved long before. As a result of this scope *delay*, the Clerk personally made the City *vulnerable* to an audit scope restriction. Eventually, we had to and were able to obtain copies of the minutes from other public officials willing to provide us with signed copies of these documents, and we removed the scope delay. It is also noted in a detailed comment in this letter that the Clerk violated and has not complied with certain provisions of Public Act 2 of 1968, the Uniform Budgeting and Accounting Act as amended. Specifically, the Clerk incurred expenses in excess of budget by almost \$63,000 which exceeds by nearly 50% the *amended* budget approved by the City Council. In addition, the Election's handled by the Clerk also violated the above mentioned Public Act and exceeded the Election budget by almost \$24,000 which exceeds by nearly 120% the *amended* budget approved by the City Council, and as indicated in the supplemental schedule of expenditures - budget to actual. Furthermore, we have never encountered these types of actions from the Clerk previously. Based on these issues, we strongly recommend that the City Council and the City attorney investigate these matters, especially where the violations resulting from the actual expenses far exceeding the approved budgeted amounts are concerned (along with other department's exceeding their approved budgets), and implement appropriate measures to resolve these types of results from occurring in the future.
- (10) We noted that the bond cash in the Police Department was not always rendered to the District Court in a timely fashion. We noted instances in which cash received by the assistant to the Police Chief was held in a drawer in her desk for an unreasonable amount of time. We noted one instance in which the cash was held for over three months before being rendered over to the District Court cashier. We recommend that the Police Department require that all cash received for bond money is rendered to the District Court to be deposited as soon as possible.

- (11) We noted that the district court cashier's office does not maintain a separate cash drawer for each cashier who is authorized to receive payment. While the court cashier has only one drawer, the daily cash receipt shows Drawer A and Drawer B as counted. We recommend that a separate drawer be maintained for each cashier who is authorized to receive payment.
- (12) During the audit we observed the handling of cash by a vendor. The city contracted towing company was allowed to collect cash and provide a city receipt to people who picked up their car from impound. Although the city receipts were not stamped and made official, the cash was delivered to the Treasurer's office during a time after the transaction was made. Those responsible for receipting the cash from the towing company were not city employees although the city receipts were maintained at the location of the vendor. We recommend that at a minimum, the clerks should do the entering of the receipts and a review should be performed by the deputy treasurer.
- (13) Time cards submitted for a test period showed that that the payroll period did not indicate any supervisory review of the hours reported. We noted timesheets from the controller's office that were not signed by the supervisor, although, there is a line provided for the Supervisor's Signature. We recommend that appropriate signoffs by authorized personnel are made when applicable.
- (14) We noted a weakness over the custody of assets related to the Police Department. During our tour of the Police Department and its processes, we noted that the police gun range in the basement was unlocked with open boxes of live ammunition that had been there for over one week. We were informed that many individuals had access to the basement including various city workers and maintenance personnel. This situation could leave the City vulnerable to theft and that of potentially harmful materials. We recommend that the City Police Department keep all of its ammunition in locked fireproof cabinets with restricted access to Police and authorized personnel only.

Strong internal controls provide for the reliability of financial reporting, safeguarding of vulnerable assets, accurate and timely reporting of transactions, segregation of duties, access restrictions to and accountability for resources and records, and proper documentation of transactions. Checks must be restrictively endorsed at the point and time of collection.

We recommend that the city clearly define and review both its policy and daily operations related to cash disbursements; periodically review its disbursement documentation for proper authorizations and adherence to maximum allowable amounts for individual disbursements; document instances of improperly authorized transactions in a log and follow up on

them; establish an overall policy relating to cash collections and imprest cash; limit the availability of funds to only the necessary persons; report cash overages and/or shortages as a separate line-item; maintain imprest cash log supplemented with the actual receipts for funds expended; reconcile imprest cash with the general ledger on a timely basis; establish physical control over cash;; receipt all monies immediately and restrictively endorse all checks.

Furthermore, we recommend that the city thoroughly review all of its receivables and payables, then update and agree all supporting reports with its general ledger balances.

## GENERAL OBSERVATIONS AND COMMENTS

- (1) Financial records are not maintained in a current manner. Basic internal control procedures, such as promptly reconciling bank accounts, were not performed. Billings for amounts due to the City were not prepared in a timely manner, if at all. The Special Revenue Budget was prepared without adequate input from the individuals responsible for budget areas, and does not appear to be properly monitored during the year. Procedures for cash receipts and cash disbursements functions do not appear to be consistently followed.

The City still needs to address the following critical problem areas:

- General ledger and financial analysis and budgeting
  - Reporting
  - Billings
  - Disbursements
- (2) The City continues to process receipts and disbursements through the general ledger, without consistent and adequate review or adjustment to reconcile the entries made on a timely basis, or at all. During our audit, we noted instances where items were not posted, or were posted to incorrect accounts or funds. Over 50 adjusting and reclassification entries had to be made in the audit to get various accounts to their proper balances. Every significant account in the general ledger required adjustment.
  - (3) In addition, accurate accounts receivable and accounts payable aging reports for the year ended June 30, 2006 either did not exist or could not be produced at all. As a result, there is no reconciliation between the actual aged balances and the general ledger. Also, prepaid expenses, other receivables, and other payables were not updated which required inaccurate balances and substantial additional work to adjust or correct.

- (4) The Controller continues to prepare the general budget it appears with little or inadequate input from department heads or those responsible for a given budget area. The deficiencies of over 10% in which expenses exceed revenues in various general fund department areas noted later in this letter underscore this point.
- (5) As of June 30, 2006 the accounting department was still not capable of preparing internal financial reports for use by Council, for identifying budget expense over-runs or revenue shortfalls in a timely manner, and for billing purposes where applicable. A complete and up to date accounting system is crucial for internal control purposes, yet has not been maintained by the City in recent years.
- (6) Checks are not always restrictively endorsed at the point and time of collection. Someone other than the person who writes receipts or posts the accounting records does not always verify that collections received in the mail are properly receipted. Collections are not reconciled by an individual not involved in the receipting process. We recommend that the city implement procedures to strengthen controls in the receipting process.
- (7) The controller and either the city clerk or deputy clerk sign checks for disbursements. Dual signatures are required for all checking accounts. The controller and either the city clerk or deputy clerk sign checks for disbursements. Dual signatures are required for all checking accounts (except the separate tax collection checking account). The dual signatures must be the clerk (or deputy clerk) and the treasurer (or deputy treasurer). We recommend that an official from both the clerk's office and the treasurer's office sign checks.
- (8) No complete fixed asset inventory was provided by either the Police Department or the Fire Department, and it appears that the fixed assets inventory is still missing a number of key components. The city does not maintain adequate internal controls for fixed assets and a general fixed asset account group was not properly maintained during the year. Proper accounting procedures require the City to maintain an inventory of all fixed assets. It is the responsibility of the City to update the fixed assets for additions and deletions. We recommend that the City develop a property management system that includes all of the following:
  - a) All assets owned by the city should be permanently labeled in some manner such as individual tags. This will not only facilitate the inventory process but will also make it more difficult for assets of the city to be removed or used by unauthorized personnel.
  - b) As part of the property management system, the city should keep records on all of the assets owned by the city, which includes the

following information: date of acquisition, tag number, description of property, original cost of assets and location of the asset.

- c) Reconciliations need to be made between the general ledger's capital outlays for the year and additions to fixed asset accounts in the fixed asset group of accounts.

While the city has established a dollar limit of \$2,000 and a five year life to classify each purchase as a capital outlay expenditure, it must also simultaneously record the asset in the general fixed asset account (control and subsidiary records). Developing a property management system that includes the above steps will not only facilitate the preparation of financial statements related to fixed assets and provide a system of protection for the assets, but will also provide an excellent record for insurance and replacement purposes as well.

- (9) The city council does not consistently receive monthly budget-to-actual reports, but rather quarterly budget-to-actual reports. In addition, these reports do not appear to be adequately reconciled to a general ledger than has been properly updated. We recommend that the controller's review and update its general ledger monthly, use the updated amounts on all monthly budget-to-actual reports, then provide the city council and officials with a monthly summary report of cash activity by fund and bank account; a monthly balance sheet by fund and detailed revenues; and a monthly report of expenditures by fund, budget-to-actual.
- (10) The city has started to develop an accounting procedures manual. However, it does not appear that the manual has been formally adopted, nor does it appear that a training program has been developed to successfully implement the procedures. The City still appears to lack a formal personnel procedures manual that could address employees and contractors issues. Also, while the city does have a limited number of other policies and resolutions on hand that have been compiled from council minutes, strong internal controls recommend establishing policies to aid in the administration of the organization. Policies lay out guidelines with which new employees and new council members can readily acquaint themselves. Policies establish standard operating procedures in many areas of city business. Policies can ensure uniform and consistent answers and treatment of procedures. Policies need to be adopted by the council at a council meeting. An annual review of policies should be performed by the staff and, as needed, updated in the form, of amendments. We recommend that the council formally establish policies and procedures. When recurring problems arise, the council should adopt a formal policy in order to give direction should the problem arise again. This will ensure the situation is handled in the proper way.

- (11) The city attorney and its officials again were not able to locate or to provide for review numerous charter amendments which had been apparently previously passed by the city. The absence of a readily accessible complete set of governing documents could leave the city vulnerable to misunderstanding of its own internal laws and statutes when carrying out its legal or operational duties to its residential and business citizens. We recommend that the city work diligently to compile and have available and readily accessible a comprehensive set of all of its governing and legal documents.
- (12) The city did not file their audit within six months following their fiscal year-end for the past five years. The reasons for the delays are enumerated in the "Other Communications" section and throughout this letter. As indicated in the chart below, the city has been delinquent in filing the audit report for the last five years.

Fiscal Year End	Due Date of Audit	Audit Received
2000	12/31/00	July 2001
2001	12/31/01	January 2002
2002	12/31/02	March 2003
2003	12/31/03	May 2004
2004	12/31/04	April 2005
2005	12/31/05	April 2006

According to MCL 141.427(4), the Uniform Budgeting and Accounting Act, states, "The copy of the audit report and the copy of the report of auditing procedures applied required by subsection (3) shall be filed with the state treasurer within 6 months after the end of the fiscal year of a local unit for which an audit has been performed pursuant to section 5." The city's fiscal year ends each year on June 30th. Therefore, their audit report would be due on or before December 31st. We recommend that the City file their audit report with the Department of Treasury in accordance with State statute.

- (13) The following areas require prompt attention and consideration:
- A. Accounting records should be maintained in a complete up-to-date manner.
  - B. Accounting records should be reviewed for completeness and for indications of mis-postings or non-postings.
  - C. Bank reconciliations should be prepared in a complete and timely manner, with adjustments made when noted.
  - D. Cash disbursement and receipt procedures should be clearly



outlined and adhered to.

- E. Official governing documents should be complete and readily accessible.
- F. Budgets must be prepared timely and with the input of those charged with budget oversight.
- G. Internal accounting reports should be generated in a timely manner for use by City management in meeting their fiduciary duties.
- H. Revenue and expense reimbursement billings should be performed in a regular and timely manner.
- I. To further organize its operations by department, the City should institute the following:
  - Prepare written job descriptions, including duties to be performed on a daily, weekly, and monthly schedule.
  - Establish position qualifications, including educational and experience requirements.
  - Conduct regular employee evaluations.

Additional items noted below include:

- 1) Condition of the accounting books and records:
  - a) Have not been adequately adjusted,
  - b) Numerous accounting schedules have not been prepared or were not available,
  - c) Numerous reconciliations have either not been prepared or not been prepared timely by the City's accounting department,
  - d) It does not appear that all of the details of all the monthly general ledgers are reviewed and adjusted for in a timely manner,
  - e) Many of the account balances require numerous significant "non-audit" adjusting, correcting, and reclassification journal entries for the ending account balances to be reasonably stated,
  - f) All of these types of entries, schedules, and reconciliations are normally prepared by a client's accounting department,

- g) Auditor's will usually propose some adjusting entries, but generally may not perform bookkeeping and extensive accounting procedures, and may not make extensive accounting type adjustments during an "audit",
  - h) In the auditing process, it is necessary to "audit" account balances that are already reasonably close to the final adjusted numbers. In other words, auditors actually audit and report on the final adjusted numbers. In this case, numerous unadjusted account balances appear not to be close to the final numbers,
  - i) In numerous instances the unadjusted balances could even confidently be used as the basis to properly determine the outcome of reliable levels of audit materiality for all significant areas of the audit,
  - j) Because of the condition of the account balances in the unadjusted books and records, the materiality levels keep shift as numerous "non-audit" (i.e. bookkeeping and accounting) adjustments are needed and made. This also shifts the extent to which testing is necessary (i.e. usually increases the extent of testing required),
  - k) Therefore, significant amounts of bookkeeping and accounting type work was necessary to adequately estimate what the final account balances would likely be, and also to properly determine the adequacy of dollar ranges, amounts of testing items necessary, and to help reasonably ensure that account balances are not materially misstated.
- 2) Inter-fund due to' and due from accounts had not been adequately reconciled and adjusted for which effected cash and various other account balances. This required significant additional work to analyze and attempt to correct.
  - 3) Repeated delays in receiving various confirmations from different Wayne County government departments. In one instance, the Wayne County Treasure's office (after multiple communications with Wayne Co.), eventually provided the completed late in the audit fieldwork. These items contain important information required for audit testing and analysis.
  - 4) The treasurer's office (and accounting system) did not have available a typical cash receipts journal which presented all of the cash receipts activity in one report. As a result:
    - a) Numerous large binders containing cashier's balance reports had to be manually searched through to determine corresponding dates,

- b) Many of the posted dates in the cashier's balance reports did not agree to the dates posted in the general ledger for various items,
- c) There were also instances in which deposits were made into incorrect bank accounts,
- d) There were also instances in which the deposit slip dates were more than one business day before the bank deposit (or bank statement) receipt date, with no apparent reason available,

All these matters require additional work to record, adjust, and/or reclassify the related balances.

## OTHER MATTERS AND RECOMMENDATIONS

### ORGANIZATION CHART

Again, the City did not have an organization chart. There is a natural tendency to dismiss the need for an organization chart in a small city, where management deals more or less directly with each employee, and where all personnel know each other, and are generally aware of each other's area of responsibility. However, without an organization chart, there may be confusion about who is really accountable for particular areas and to whom employees are responsible. The result could be that some areas of operations do not receive adequate attention or that duplicated or contradictory actions are taken. A good organization chart can prevent such misunderstandings and also increase administrative efficiency and control in the following ways:

- Indicate whether there is adequate separation of duties.
- Inform management, new employees, and others of the City's management and operating style.
- Provide information for management to monitor and inquire into operations and procedures, assign new duties or responsibilities that may arise, or make reassignments when employee turnover, promotion, operational needs, desire for separation of duties, or other circumstances call for it.

The chart should be updated whenever there is significant employee turnover or change in operations. By developing the chart the City would have a beginning to start organizing its operations.

### ECORSE HOUSING COMMISSION

The Ecorse Housing Commission is a component unit of the City. When the

City is financially accountable for a legally separate entity, the City should include the financial information of that unit with its own financial statements to form the financial reporting entity. Financial accountability exists if the City appoints a voting majority of the unit's governing body, and if one of the following exists:

- The primary government can impose its will on the other entity, or
- The potential exists for the other entity to (1) provide specific benefits to, or (2) impose specific financial burdens on the City.

The State of Michigan, Department of Treasury has promulgated a "Statement on Michigan Governmental Accounting and Auditing No. 5" for the purpose of defining the governmental reporting entity for Michigan. Governmental units. This statement stipulates that Housing Commissions are component units.

For the current year and recent past years, the City has been unable to obtain financial information from its Housing Commission for inclusion in the City's financial statements.

We recommend that the City review the situation at the Ecorse Housing Commission and initiate actions necessary to obtain the financial information needed to comply with accounting principles.

#### GENERAL FUND DEFICIT AND BUDGET V. ACTUAL EXPENSES

The unrestricted net assets of the general fund of the City of Ecorse are in a deficit position of \$3,952,508, and the total net assets on the government wide statement of net assets are in a total deficit position of \$6,600,274 at June 30, 2006. In addition, expenses and transfers in the general fund did exceed revenues by \$5,190,401 for the year ended June 30, 2006.

However, the city has not complied with certain provisions of Public Act 2 of 1968, the Uniform Budgeting and Accounting Act as amended. Specifically, certain departments incurred expenses in excess of their budgets, as indicated in the supplemental schedule of expenditures - budget to actual - included with the financial statements. Departments with variances in excess of 10% were;

<b>Department</b>	<b>Budget</b>	<b>Actual</b>
Legislative	\$ 175,000	\$ 244,524
Elections (in Clerk's Office)	20,000	43,896
Clerk's Office	128,500	191,016
Police Department	2,788,830	3,308,465
Fire Department	1,708,975	2,047,527
Building and Engineering	298,850	453,444
Senior Citizens	94,000	105,734

## BUDGETS AND GENERAL APPROPRIATIONS

The Michigan Uniform Budgeting and Accounting Act (P.A. 621 of 1978) require that local units of government follow certain procedures not only in presenting their budgets but also in monitoring them. One of these requirements is that the City amends its general appropriations as soon as it becomes apparent that a deviation has occurred. At year-end, certain expenditures in the General Fund exceeded appropriations, as discussed previously.

We recommend that greater care be taken in developing the budgets. Actual to budget reports should be prepared in a regular and current manner. Accurate expenditure projections are crucial to developing an attainable budget.

## DISTRIBUTION OF TAX COLLECTIONS (CL 211.43)

Michigan law requires that governmental units with total SEV of more than \$15,000,000 meet the following schedule for distribution of tax collections:

1. Within 10 business days after the 1st and 15th day of each month, account for and deliver tax collections on hand on the 1st and 15th day of each month; and
2. Within 10 business days after the last day of February, account for and deliver at least 90% of the tax collections on hand on the last day of February; and
3. A final adjustment and delivery of the total amount of tax collections on hand shall be made not later than April 1 of each year; or
4. The local unit may enter into an agreement with other tax assessing units to establish an alternative schedule for the delivery of tax collections.

Since the City has not entered into agreements providing for alternative schedules for the payment of tax collections, it must follow the schedule outlined in the preceding items 1 to 3. Failure to follow this *schedule* constitutes delinquent distribution.

We recommend that the City establish procedures to comply with Michigan law regarding the distribution of its tax collections. The preceding schedule should be adhered to in distributing tax collections received on behalf of other taxing jurisdictions.

## ADMINISTRATION OF HEALTH INSURANCE PREMIUMS

The administration of the employee health insurance benefits and premiums was authorized by City Council to transfer this responsibility to the

controller's office. However, during the year, we noted that this function and responsibility was administered and maintained by the treasurer's department. We recommend that the responsibility for administration and payment of health insurance premiums be maintained by the payroll section of the controller's office. This will allow for easier verification of the employees eligible for coverage and adjustment to premium invoices for terminated or departed employees. We also recommend that sufficient records of COBRA qualified employees be maintained, including COBRA repayments. Those former employees, who do not promptly remit their COBRA payments, should be dropped as regulations permit.

### CONTROLLERS OFFICE

The Controller position performs numerous functions for the City, which is not normally included within controllership duties. Some of those functions are purchasing, labor negotiations, and tax tribunal activities. Due to the amount of time spent on these activities, the financial and accounting function does not receive adequate attention. A great deal of audit time is spent reconciling accounts and recording transactions. These items should be performed by the controllers' office prior to audit commencement.

We recommend that the City either reduce the duties of the Controller to financial and accounting functions or hire a qualified accountant to assist in performing those functions. While various accounting assistants were employed during the 2006 fiscal year, the overall state of the accounting records showed no indication of significant improvement over prior years. This is partially due to the fact that no comprehensive monthly analysis of the details of all the individual general ledger transactions is performed by qualified accounting personnel. This lack of continuity, compounded by the absence of accounting policies and procedures, results in a lack of consistency in the preparation and maintenance of accounting records.

In addition to the previous recommendations concerning proper accounting record maintenance, bank reconciliation processes, and reporting practices, other recommendations made previously that continue to apply to the current year follow. Each of these items requires performance on a regular basis in order to maintain complete and accurate financial information throughout the year:

- Proper computerized management reports are not being maintained for accounts payable and disbursing activities.
- Accounting functions should be organized and put into an accounting manual, which would provide staff duties and responsibilities, along with completion timelines, and examples of properly completed documents,
- Departments frequently do not provide the correct general ledger account

numbers on their requisitions, nor do vendor cards reflect the proper account numbers; therefore, transactions may be charged inaccurately.

### TREASURER'S OFFICE

The policy and procedures manual for the Treasurer's office, including position descriptions, with delineated job duties and responsibilities is out-dated. We recommend that such a manual be revised and maintained in a current manner. The Treasurer's Office seems to have presented more issues and problems overall this year. The Treasurer's office either did not have or did not make available complete supporting data (i.e. treasury copies of receipts, other department copy of receipts, remittance advice, consistency of numerically sequenced receipts available, etc.) for the auditors in a timely manner, which appears to be a result of untimely processing of cash receipts into the general ledger accounting system, and a lack of human resources to process these receipts. The receipts were not made accessible and available for review until January 2007. More problems with posting dates, cashier balance reports, deposit slip dates, remittance advice dates, etc. This delayed the audit testing of numerous transactions which effect cash, receivables, and revenues, etc. All these matters required additional work to test, record, adjust, and/or reclassify the related balances.

Additional recommendations are noted below:

- We noted that funds received are not consistently deposited in a timely manner and are not recorded in the general ledger in a timely manner. We recommended that procedures be established and enforced to deposit monies daily. We further recommend that deposits be recorded in subsidiary journals and the general ledger promptly. Prompt deposits reduce defalcation opportunity and will ensure that all funds are available for investment. Prompt recording of receipts will provide up to date records, reduce the likelihood of duplicate payments being accepted, and assist in reconciliation activities.
- We noted deposits made to wrong bank accounts which resulted in cash receipts being recorded incorrectly. We recommended that communication with the Controller's department take place when needed, to determine the proper accounts to which a deposit should be made.

Only one individual in the Treasurers' office enters data into the City's accounting systems. We recommend that other office employees be trained to enter data into the systems. This will allow for more timely processing of transactions and also provide for better internal controls since more than one person will have system access, reducing the opportunity for manipulation of the data.

## WATER DEPARTMENT OPERATIONS

A number of commercial meters are estimated instead of being read. Known defective meters are not always replaced in a timely manner. Minimum charges for residential and commercial customers are over-looked, and negative usage billings are generated. Water bills are prepared and mailed with insufficient review. We recommended that estimating of bills be performed only in necessary circumstances, and not as a matter of course. We recommend that meters be replaced when found to be not working properly. We recommended that water bills be reviewed prior to mailing and that certain procedures be developed to identify and correct billing errors.

## COMPUTER SYSTEM

The following list describes some of the problems related to the computerized accounting system:

No formally adopted and implemented policy exists regarding the creation and distribution of management and other reports. We recommend that someone, review the types of information available from the system. They should then determine the types of reports that should be generated, the frequency in which it should be generated, and the record retention period. External reporting requirements should also be identified and quantified. Required procedures for the generation and frequency of these items should be documented.

- We noted that computer system controls were not always effectively utilized. We noted control features being over ridden, ignored or not utilized. We also noted that some control features were not part of the computer system. We recommend that policies and procedures for the controls over computer systems be established and enforced. We again recommend that procedures be enumerated and contained within a manual for reference and enforcement of policies.

## VACATION AND SICK DAYS

Union contracts and employment agreements provide for the accrual of days for vacations, sick time, and other purposes. Several departments maintain their own records of paid time off. These records are not in an auditable condition since time sheets or time cards indicating the amount of time accrued and taken for vacation, sick and compensatory time are not maintained. We recommend that time records be properly maintained, by the payroll section of the controller's office, noting the accrual and usage of compensated absences.



## FUNDING FOR POST EMPLOYMENT BENEFITS

The Governmental Accounting Standards Board (GASB) released GASB Statement 45, *Accounting and Reporting by Employers for Post Employment Benefits Other Than Pensions* which is effective for the City's June 30, 2009 fiscal year end. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care and any other post employment benefits (other than pensions). The goal of the new standard is to recognize the cost of providing retiree health care coverage over the working life of the employee, rather than at the time the health care premiums are paid. The rules will apply to the government wide financial statements rather than at the fund level. As a result, the current manner in which retiree health care benefits expense is budgeted for will not change. However, if the City begins funding the benefits there are incentives provided by GASB.

Note that a valuation will be required for the obligation to provide health care benefits, including an amortization of the past service cost over a period of up to 30 years. The valuation must include an annual recommended contribution (ARC). While the ARC does not need to be funded each year, any under funding must be reported as a liability on the government wide statement of net assets.

The valuation will need to be performed by an actuary if the total participants exceed 100. Participants are defined as employees in active service, terminated employees not yet receiving benefits, as well as retirees and beneficiaries currently receiving benefits. For plans with 100 to 200 participants, the actuarial valuation must be at least every three years, and if over 200 participants, at least every other year. The GASB Statement provides significant incentive to fund the obligation in accordance with the ARC. The GASB has also required that lower rates of return be used for evaluating the ARC in situations where the recommended contribution is not being funded. The result is that this will substantially increase the calculation of the following year's contribution.

This statement is being phased in over a three-year period, similar to GASB 34. It is effective for the City's fiscal year ending June 30, 2009. Since the City will need lead time to have an actuary perform the valuation, and additional time to work the numbers into the budget, we recommend that the City begin the process right away in order to plan ahead so that all the actuarial valuation information is available by January or at the latest February 2008 for consideration in the City's June 30, 2009 year end budget process. This entire process involves a thorough analysis and summary of existing benefit promises and may require evaluation by legal counsel of the requirement to provide such benefits.

## FINANCIAL POSITION OF THE CITY

The City of Ecorse is vulnerable to challenge areas within the State's Municipal Model (similar to other local government units). These areas include potential future cuts to state shared revenue, changes to the General Property Tax Act, etc. The City has not been able to maintain a positive fund balance and appears reliant on tax base expansion to provide substantial new revenue sources to stabilize its financial condition. The City's financial condition continues to be threatened by: uncertainty with the State's budget, state legislative changes including expiration of statutory revenue sharing, pension & retiree health care costs, unpredictability regarding tax base expansion, and working capital needs. Given these issues, we strongly advise the City to begin development of a multi-year financial model which may allow the City to prepare for the impact of these factors on the City's General Fund.

## TRANSPORTATION AND ACTS 51 ISSUES MATTERS

The City of Ecorse and other local governments are allowed under current legislation to transfer monies from the Major Street Fund to the Local Street Fund at a level of 50% of annual major street funding received. Major streets funds transferred for use on local streets can not be used for construction but may be used for preservation, and these provisions expire at the end of 2008.

## DISTRICT COURT FUND

The District Court Fund general ledger balances did not agree to the supporting documents and available reports. Bonds payable and other ledgers had not been adjusted for, and it appears that potential escheated money may not have been properly identified and remitted. As a result, additional testing had been necessary to determine the proper balances in these accounts. Also, client again attempted but only partially corrected these balances which required additional analysis and larger proposed adjusting journal entries. We strongly recommend that the City make every effort to address and implement procedures to resolve the above issues in a timely and thorough manner.

## CURRENT TAX COLLECTION FUND

The Current Tax Collection Fund balances had not initially been adequately adjusted for at June 30, 2006. As a result, the balances in this fund and numerous other funds which are affected by this fund had not been adequately adjusted. As a result, these balances affected were not able to be relied upon. Also, additional time was required to test, evaluate, and or correct various journal entries affecting this and other funds. In particular, the current tax collection fund effects general fund other fund revenues, debt, cash, inter-fund receivables and payables, etc.

In addition, numerous spreadsheets were presented to us late in the audit fieldwork from the controller's office pertaining to the City of Ecorse Current Tax Collection Fund (CTCF). These spreadsheets were attempts to reconcile balances for various external governmental units and internal funds. The units and funds included State IFT, Sewer EPA, Wayne County, Ecorse Public Schools, River Rouge Public Schools, Delinquent Water, Pension Judgment, and General Fund, etc. As a result, many of the items on the numerous spreadsheets had to be followed up on, assessed, tested, reviewed, recalculated, reconciled with supporting data, discussed between client and auditors, etc.

The effect on the accounts had to be evaluated and considered for adjustment in the accounting records. Furthermore, no client adjusting journal entries were initially made regarding the un reconciled account balances, until the auditor's evaluation.

We strongly recommend that the City of Ecorse make every effort to discuss and resolve any remaining outstanding matters related to the CTCF receivable or payable balances with all applicable external governmental units, make every effort to resolve any related outstanding issues, and make every effort to schedule out and reconcile all internal due to and from internal fund balances in a timely and detailed manner during the year in which transactions occur.

### INTERVIEWS WITH KEY CITY PERSONNEL

Interviews with City personnel, including elected officials and City department managers resulted in more concerns raised by these individuals than in previous years. These responses all required more analysis and development of different types of testing and more testing to address the significant issues regarding the Treasurer's office, the Clerk's office, the Controller's office, the Independent Contractors issue, the Police Department cash handling and safeguarding of assets, the Fire department Kelly Days and Pension issues, etc, etc.

We strongly recommend that the City of Ecorse implement and maintain a formal centralized internal operating review process whereby these types of concerns are documented in writing, and followed up on regularly (at least quarterly or semi-annually), along with status updates as to the progress and/or of resolution of all documented areas of concern.

### BANK RECONCILIATIONS

Bank reconciliations details were shifting during the year as prepared by the former Deputy Controller, which altered the balances and presentation of the reconciliations. Details prepared during the year had apparently been affected by the treasurer's office not processing and accounting for receipts into the general ledger during the year in a timely and consistent fashion (point 1a above). Large amounts had been included on the bank reconciliations and entered in the general ledger attempting to reconcile items that were either not

on the bank statements, not on the general ledger, or both. This had caused additional testing of items at the transaction level, due to large recurring entries that attempted to capture the activities of numerous days in single entries. These types of entries did not reflect normal recurring receipting of cash during the month as it would generally correspond to the monthly bank statements. As a result increased testing of transactions was required.

We strongly recommend that the City enhance its efforts to perform not only timely but accurate and thorough bank reconciliations on a monthly basis. This is not only to remain in compliance with State accounting regulations, but in order for the City to stay in close touch with the transactions and balances in the non-cash accounts that are effected by the numerous accounting transactions involving cash and other accounts in the trial balances.

### ACCOUNTING SCHEDULES AND ACCOUNTING CLEANUP

We noted that fewer accounting schedules had been prepared or made available to us and more reconciliations had either not been prepared or not prepared timely or adequately by the City's accounting department. These included, but were not limited to: bank reconciliations, receivables, payables, accrued expenses, due to/from accounts, tax revenue accounts, other revenue accounts, most expense accounts from all or most funds including the General Fund, Special Revenue Funds, Water Fund, Fiduciary Funds (especially CTCF), District Court, and Fixed Asset Account Group, and Long Term Debt Group.

Attempts were made by the accounting department to "fix" the accounts more in the 2006 audit year due to having a deputy controller, but resulted in us having to perform much more analysis to consider what was done and what and how various accounts were effected, and in many cases having to go in, and either directly correct what was done, or undo what was done and attempt to properly reconcile and figure out what correcting transactions were needed and/or what the actual balances should have been. Overall, this resulted in more audit work (including proposed adjusting journal entries) than would have been necessary had the complete internal accounting function of the City been operating properly and thoroughly.

We strongly recommend that the City of Ecorse consider strengthening its internal accounting department either through the use of more highly qualified internal employees or qualified external accountants to perform all of the recurring and challenging accounting processes and review necessary to keep the City's accounting books and records current and complete.

### STRENGTHENING INTERNAL CONTROLS & REVIEW PROCESSES

We noted that the City does has virtually no formal internal controls and review processes that have been designed, documented, adopted, implemented, reviewed, and maintained. As a result, the City is consistently not prepared for its annual audit and is often not in a position to adequately assess and correct

or update its own accounting operations and transactions in a timely and complete manner. These include such areas as internal analytical review of all of its own transactions monthly, ability to prepare accurate and timely balances which the City can compare against budgets to know where the City stands financially on a monthly basis and not have to wait until after the annual external audit is complete to actually be sure, perform monthly close-outs of the accounting books and records, preparing monthly complete financial statements for council review, etc.

Therefore, we strongly recommend that the City design and perform its own internal walk-thru's of all of its various processes and procedures. In addition, we recommend that the City begin to develop a checklist of all areas for which schedules need to be prepared in order to perform its own internal review, and create an independent Audit Committee and internal audit function which reports directly to the Audit Committee. The Audit Committee could also review updates to Governmental Accounting Standards and State regulations which are often being updated or revised to help keep the City's accounting records and transactions being maintained in accordance with appropriate accounting principles. In this way, the City can substantially begin to address its numerous internal control and accounting weaknesses.

#### GOING CONCERN ISSUE AND DEFICIT REDUCTION PLANS

As was noted in the Notes to the Financial Statements for the year ended June 30, 2006, the City has a going concern issue and fund deficit(s) considerations. This is a very serious issue which will require substantial time and input from the officials of the City and the City's accounting department to adequately and thoroughly address and resolve.

We strongly recommend that the City diligently involve all of the necessary internal personnel and external assistance necessary to properly design, implement, and maintain a deficit reduction plan which is both realistic, workable, and acceptable to the State of Michigan.

#### BROWNFIELD REDEVELOPMENT AUTHORITY

The Brownfield Redevelopment Authority Fund (BRA) initially had not been properly evaluated and processed as a discreetly presented component unit within the financial statements. The BRA began to have operational and financial activity within the year ended June 30, 2006, which required treatment as a separate fund and unit on the financial statements. Nearly \$1M of revenue and well over \$1M of expenses had to come under audit consideration and testing. Initially, numerous expense entries in this fund had not been properly identified, recorded or adjusted for during the year. The City was not able to clearly identify all amounts incurred in the General Fund which were transferred to the BRA for demolition costs, administrative costs, etc.

Generally Accepted Accounting Principles (GAAP), accounting had not been followed initially in the classification of salvage receipts, demolition expenses, and the BRA records did not record the transfer of the Mill Street property and related land costs from the Water Fund. The books and records did not initially capture or treat the accounting activity that took place during the year in this component unit. It was not until after the audit testing of the BRA, that the need for proposed large adjusting entries was discovered.

In addition, there were many delays in receiving supporting documentation regarding the BRA financial activity. We never received the requested information from the chairman of the BRA after meeting initially with him early in the audit fieldwork, and attempting to follow up with him on numerous occasions. As a result, time consuming evidence gathering procedures had to be employed and additional related testing was required. It is also noted that the City of Ecorse BRA and the Mill Street property and the related handling of records and demolition contracts and salvage revenues came under investigation in the media which increased audit related risk and required additional testing.

We recommend that the City Ecorse Brownfield Redevelopment Authority make every effort to resolve all of these issues with appropriate communication, responsible recordkeeping, timely accounting, and consistent updates made throughout the year.